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Thesis

"PROFIT SHARING and INDUSTRIAL STABILITY"

by

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I

INTRODUCTION

Profit Sharing and Industrial Stability

The attainment of industrial stability in an economic system of private enterprise is a problem which seems to be difficult of satisfactory solution. Since the beginning of industrialism the proper coordinating of the productive elements of the economy have posed profound problems. Solutions have been attempted in the way of regulation, government and private. Many men have been convinced that stability could be purchased only at the price of sacrificing private ownership and private control of productive resources. Economic and political systems have been established which would solve these difficulties from a central, totalitarian attack.

Can industrial stability be won in a free enterprise, capitalistic economy? What modifications in our American system are necessary to accomplish such an aim?

The purpose of this work is to analyze the problem and to ascertain how profit sharing may contribute to the attaining of one, stability in industry; two, the furthering of satisfactory employer-employee relations.

II

PROFIT SHARING

What is Profit Sharing?

The classical definition of profit sharing, and one which characterizes the majority of present-day writings on this subject, is that formulated by the International Cooperative Congress at a meeting in Paris, France in 1889, stating that, "Profit sharing is an agreement, freely entered into, by which the employees receive a share, fixed in advance, of the profits."[1] The British Board of Trade defined profit sharing thus, "Profit sharing is understood to involve an agreement between an employer and his workpeople under which the latter receive, in addition to their wages, a share, fixed beforehand, in the profits of the undertaking."[2]

Due to the many and diverse objectives and uses of the principle of profit sharing there is little agreement among writers as to a standard definition. It is difficult to state definitely or argue that a certain phase of a company's employee program is to be listed under profit sharing or not. Certainly, in effect, a company paying higher wages than competitors is sharing their profits; or a well developed employee medical and health plan making available costly services without charge to the employees is, in actuality, a sharing of the profits.

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1. Encyclopedia of the Social Sciences, Vol. II, Profit Sharing, p. 487.

2. British Board of Trade, Profit Sharing and Labor Copartnership in the United Kingdom. (1912).

In the survey of experiences in profit sharing in the United States conducted by the subcommittee of the Committee on Finance of the United States Senate another opinion was expressed. The problem was interpreted thus, "Practically, a formula should be sought which will not only be satisfactory to the workers but which will create a real consciousness of their relationship to the industrial operation, thereby helping to make capitalism intelligently democratic."[1] Are we particularly concerned whether or not the appropriation of any concern for employee benefits, in excess of contractual wages, are classified in one or another category or whether they meet the specifications of an accounting technique, which is not standardized for all types of business, or are we specifically interested in the fortification of our democratic form of government, the preservation of our system of private capitalism, the amelioration of labor disputes, and the cementing of employer-employee relations for the common welfare?[2]

The conclusion reached was that the determination of whether or not a profit sharing plan accomplished the latter mentioned objectives was more important than a broad or narrow definition of terms.

There is nothing to be gained by argument concerning definitions. In the final analysis the important thing

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1. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation, Washington, D.C. (1939) p. 53.

2. Ibid., p. 53.

is to find a formula which will achieve the desired results, be it profit sharing or anything else.

It is felt, however, that since profits are the mainspring and backbone of a capitalistic economy that only plans which definitely pertain to <u>profits</u> can be of potential significance in effecting a remedy. True or not, it is difficult to convince an employee that he should regard various benefits--vacations with pay, bonuses, retirement plans and the like, as shares of the profits. While they undoubtedly are, in the sense that the expense of these devices decreases the company's profits available to the owners, they are much more likely to be looked upon as only just and due the worker. The implication of the term profits in the popular mind are such as to make very difficult a feeling of harmony and partnership among those concerned in industry unless there is a sharing of real profits.

For the purpose of this discussion there will be adherence to the classical definition even though this is quite limited. Without arguing much the limitation of the term, per se, the intention is to discover the potentialities of profit sharing as an aid to the solution of the industrial relations problem through a more widespread understanding of the role of profits in the individual business unit and in a capitalistic economy, and whether or not a more diffused share in those profits can aid in alleviating the distressing effects of strikes and other forms of industrial maladjustment.

This discussion is to be concerned with the role of profit sharing in the latter mentioned sense, i.e., that it is one of the essential features of a successful industrial relations program, not an entire plan.

Profits

Profits are defined by the International Cooperative Congress held in Delft, Holland, in 1897 as "the actual net balance of gain realized by the financial operations of the undertaking in relation to which the scheme exists."[1]

Thus it is necessary to set up and maintain an accurate system of accounting in order to ascertain the net profits from operations. In all true profit sharing plans the worker's share depends entirely on the profitability of the enterprise. While a percentage of share may be determined at the beginning, the actual amount of the share in terms of dollars and cents is contingent on the making of the profits. It will tend to fluctuate from year to year; its very element of uncertainty is potentially the force that will motivate the self-interest of the worker to do everything in his power to increase net profits so that he will receive more money.

Only in this way can the proper stimulation of effort to attain the desired objectives be brought about.

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1. National Industrial Conference Board, Practical Experience with Profit Sharing in Industrial Establishments, (June, 1920) p. 3.

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Philosophy of Profit Sharing

Profit Sharing has been advocated on many grounds, varying from the extremes of social justice and the "inherent right" of labor theories to the more selfish motives that various benefits would accrue to the company using this means as a device in the employer-employee mechanism.

Some socially minded persons have sponsored profit sharing plans because they believe that the worker has an inherent right to participate in profits derived from work in which he has taken part. Historically considered, it is quite true that law and custom have decreed that profits should accrue to those that bear the risks of industry. Interpreted strictly this would restrict the distribution of profits to the capitalistic element--that which normally has to bear the burden of risk, gamble on the success of the business, and wait for its share or compensation for its investment. Labor therefore is theoretically excluded because it is compensated regularly by wages, bears none of the multiple risks faced by ownership.

Were it true that labor bore no risks we could perhaps hold tenaciously to this theory. Under simple conditions of industry likewise there might be justification for adherence to this time-honored idea. The complexities of modern life the dependence of individuals on well regulated economic systems, seem to necessitate some changes in our theory of rights.

Upon, closer analysis, it would seem that the worker who depends upon his job and the wages received for carrying out his work, has just as great, or perhaps, a more vital stake in the success of that business undertaking. While the investor may have to forego temporarily profits on his investment, the worker usually suffers privation, hunger, and other ills for himself and his dependents. From an immediate viewpoint, then, his risk in terms of human considerations is vastly greater.

While outside the confines of this discussion, thought might nevertheless be given to the matter of rights. We speak of, and believe in many rights, those of private property, free speech, and the like. What are rights? Are they permanent, unchangeable? Who decrees what is right or what is not right? Is it not possible that a right of one time, though socially tenable then, may not degenerate into a custom entirely contrary to social progress. In the last essence, rights become such and are enforced or upheld because society decrees in that way. It may be true that the old concept of profits and right thereto needs some modernization. There always exists the danger that rights may degenerate into undesirable vested interests. Such vested interests, selfishly motivated, tend to resist change strongly, and genuine social and economic advance may suffer at the hands of selfish individualism.

To the extent that profit sharing may function to

bring about a closer human relationship between the various classes of our industrial society it is a potential tool for social advancement. As an army travels on its stomach, so society advanced as the needs of its constituents are more adequately served. There has been a great tendency, especially in free enterprise systems, to lose the human touch in business, to regard everything in a cold blooded light. If a certain course of action made profits for its promoters it received their blessings regardless of the effect on other people. Such philosophy leads unerringly to class consciousness and breeds class hatred, the antithesis to homogeneity and understanding. It is time that we realized that the worker is a human being, that he cannot be treated as machinery or raw material, and that we shape our employee policies with that in mind. That is not altruistic at all, but good common sense business.

Mr. Royal F. Munger, Financial Editor of the Chicago Daily News, has this to say on this question, "Few statesmen, still fewer merchants or business men, have adequate realization of the value of a human being as an economic unit. Those who do have this realization achieve a success which the uninformed find incomprehensible. The empire builder who protects the loyal and the thrifty is merely oiling and sheltering his own machinery. The landlord who fills his building or his land with good tenants will prosper in the end. Human brains and muscle is the only stuff from which ultimate success can

be fashioned. The chief wealth of any country is its people."[1]

The last sentence of that quotation might well be amended to read that those people must be satisfied, ambitious, and courageous. Attainment of these qualities is not possible under conditions where one class distrusts the motives and actions of the other and sets in motion counter actions which we know only too well today. Money has been said to be the root of all evil. A great deal of this evil may be eliminated if we can remove the stigma from the making of money through profits by making it possible for more people to understand the nature of profits and give them a greater opportunity to produce and share them.

Finally, profit sharing appears to be the most likely method to use in order to regain the mutuality of interest and responsibility in the conduct of successful business, much of which has been lost due to the organization of business under the modern corporate form. Substitution of a profit economy for a service economy, absentee ownership and control, have established conditions of impersonality that undoubtedly have contributed to the severity of employer-employee problems. Selfish considerations are much more apt to play an important part in the decisions made by the different groups in industry, disunity and strife more apt to be engendered under such conditions.

1. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation. Washington (1939) p. 58.

When one considers the ever present need of cooperation to achieve greatest results, anything that is allowed to disturb this cooperation is inimical to the best interests of society as a whole.

In the final analysis, it appears that, from a modern viewpoint, profit sharing is extremely good business. Even though criticized as being idealistic, utopian, impractical, the fact remains that it is potentially the greatest bulwark in our defense of the free enterprise system. What better way to fortify this ideaology than to effectively develop a nation of capitalists who understand and benefit from the operation of a profit system? What better way exists to persuade a man to respect property rights than to allow and prompt him to become a property owner?

History of Profit Sharing

Profit Sharing in modern times owes its beginning largely to Edme Jean LeClaire, a Parisian house painter and decorator.[1] In 1842 he inaugurated the method of employee participation in the profits of his business and continued its operation until his death in 1872. His successors have embodied the plan in the management of the business since that time to the present. It is interesting to note, that, like many other great figures in social and economic history--for example, Robert Owen, the father of the Cooperative Movement--LeClaire was born and raised under very humble circumstances and upon his rise to wealth gave consideration and thought to the employee angle of his business. Whether the motivation in his case was one of social justice or of just good common sense is hard to say. At any rate he appraised the problem of labor relations correctly and set out to develop a very effective remedy for it. His plan has served as the basis of many of the plans that have since been established.

That a vital factor in satisfactory labor relations is knowledge of human nature is evidenced by the fact that much of the success of LeClaire plan is attributed, not to the plan itself, but to the way in which it was administered. The following statement is illuminating. "It is recorded that the success of the LeClaire plan was due to the fact

1. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation, Washington, 1939. p. 71.

[illegible]

that LeClaire knew his craft and the men who practiced it; he knew their temptations and their difficulties; he knew their weaknesses and their impulses and he constructed his plan in such a way as to govern, control, and protect his men against themselves."[1]

In this pioneering period the LeClaire plan stood out as the chief success. Although interest in the plan stimulated considerable new trials only 12 plans of those adopted in this period were said to be in operation in 1899.[2] Between 1870 and 1880 27 French establishments embarked on plans that lasted for long periods. In 1914 France had between 70 and 80 plans in actual operation.

In France plans have usually been of the "deferred participation" type.[3] There are various methods of determining the number of shares the employees are to receive. Usually after provision is made for interest on invested capital and for depreciation and reserves a ratio is set up based on the relation of the annual wage bill to the total capital. The profits so shared are accumulated in a "patrimony" and paid into employee pension funds. Shares of profits distributed in company stock are sometimes used, usually with the stipulation that the capital so represented shall remain in the firm for a specified period.

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1. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation, Washington (1939) p. 71.

2. National Industrial Conference Board, Practical Experience with Profit Sharing in Industrial Establishments (1920) p.8.

3. Encyclopedia of Social Sciences, Volume II, Profit Sharing, p. 487.

Profit Sharing in England

Stimulated by many prominent English economists of the day, such as John Stuart Mill, who pictured LeClaire as an example to be followed by employers, British industrialists introduced profit sharing plans about the year 1870. The history of profit sharing in England is characterized by periodic spurts of enthusiasm. The years 1889-92, 1908-9, 1912-14, 1919 saw many trials of these plans.[1] Until 1920, 380 British establishments are recorded as having tried the idea. Of that number 182 plans were then in operation, the rest, 52% of the total were discontinued.

The steady interest in profit sharing, regardless of failures indicates that there is definite hope that some lasting benefits may accrue. Dissatisfaction in England is said to have been due largely to the failure to produce a satisfactory plan that would produce the desired results of the employer and that would be able to weather circumstances such as depressions, lack of profits, death of employer, changed management of business and apathy of workers.[2]

Thus it is seen that a major task confronting the advocate of profit sharing is that of educating both employers and employees in the problems of business so that a more stable outlook under all conditions may be developed. Lack of profits in any given year should not necessarily be

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1. National Industrial Conference Board, Practical Experience with Profit Sharing in Industrial Establishments (1920) p. 9.

2. Ibid., p. 10.

[illegible]

a cause for discontinuance, if all concerned understand the reason for that lack, and make more concerted efforts to remedy the situation.

Profit sharing in England has been particularly successful in the gas industry. In 1889 the South Metropolitan Gas Company extended a complete coverage plan to their plants which brought benefits to consumer, worker and investor. The successful experience of this company prompted a large part of the British Gas Industry to adopt similar plans, and "with the exception of one small plant, none of the gas companies in England which adopted this profit sharing plan ever abandoned it."[1]

In England these plans have chiefly been administered under a "co-partnership" plan involving the distribution of the determined share of profits one-half in cash and one-half in company stock.[2] These plans were predominantly operative in the gas industry.

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1. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation, Washington (1939), p. 72.

2. Encyclopedia of The Social Sciences, Volume II, Profit Sharing, p. 488.

Profit Sharing in America

From the time that Albert Gallatin first introduced a profit sharing plan in his glass works in New Geneva, Pennsylvania in 1794 on the ground "that the democratic principles upon which this Nation was founded should not be restricted to the political processes but should be applied to the industrial operation",[1] profit sharing in the United States has had a varied, colorful history.

A survey of the development up to 1896 indicates that 50 companies had established plans of which 12 were left in operation by that time.[2] One of the leaders of this early development was the N. O. Nelson Company of St. Louis which maintained its plan in operation for 49 years until the recent depression. The outstanding development in this period was probably the plan which the Procter and Gamble Company established in 1886 and maintains at the present time.

The investigation of the United States Department of Labor in 1916[3] showed that 60 profit sharing plans were in operation, 33 in manufacturing companies. The most prominent names in this period of development were the Simplex Wire and Cable Company of Cambridge, Massachusetts; the Hibbard-Spencer-Bartlett and Company of Chicago, Illinois; the Reynolds Tobacco

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1. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation, Washington (1939) p. 72.

2. National Industrial Conference Board, Practical Experience with Profit Sharing in Industrial Establishments (1920) p.10.

3. Ibid., p. 10.

Company, Winston-Salem, North Carolina; Eastman Kodak Company, Rochester, New York; Edison Electric Illuminating Company, Boston, Massachusetts, and the Sears, Roebuck Company of Chicago. In 1818 the Joslyn Manufacturing and Supply Company developed a "profit sharing-savings-retirement-fund" plan which has to date been highly successful. Other successful plans adopted more recently are those of the General Electric Company of Schenectady, New York, employing over 55,000 people, the Westinghouse Electric and Manufacturing Company of Pittsburgh Pennsylvania with more than 50,000 employees, the Nunn-Bush Shoe Company of Milwaukee, Wisconsin, which later also became noted for its "annual wage" plan, and the Hoskins Manufacturing Company of Detroit, Michigan.[1]

The successful achievement of these companies proves that profit sharing is not limited in its effectiveness to the small company but that if the proper plan is attuned to the conditions at hand it may prove beneficial to all sizes and kinds of business.

The urgency of profit sharing appears to have been so strong to the government of the Republic of Venezuela that in December, 1938 it decreed that employees of industry and business throughout the republic should share in the profits at rates ranging from 2.05 percent of annual earnings of those

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1. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation, Washington (1939) p. 74.

[illegible]

employed in small concerns to 12.45 percent for those working in large establishments.[1]

The maintained, though often sporadic, interest in profit sharing in the United States is a healthy sign because it indicates that employers are really trying to remedy one of the most potent causes of labor unrest. Again it may be emphasized that it is difficult to determine upon a universally satisfactory profit sharing arrangement. The end will be achieved however through continued attempts which are bound to bring refinements and adjustments that will minimize the chances of failure to which many plans of the past were subject.

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1. Monthly Labor Review, Compulsory Profit Sharing in Venezuela, (March, 1939).

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Extent of Profit Sharing in the U.S. Today.

The latest and most significant information concerning the extent to which profit sharing has developed in the United States is supplied by the publication of the findings of a subcommittee of the U.S. Senate charged with making an enquiry into Profit sharing in American business. This survey reports that 428 companies submitted data on various types of profit sharing in operation in their plants. It is significant to note that this figure is not entirely representative because it does not include plans which are in operation in many subsidiaries, and branches of those which filed information. Small as well as large companies are represented. In employment they range from some having only a few workers to others employing more than 75,000; in capital, they vary from a few thousand dollars to over $100,000,000.

The following table[1] indicates (1) the number of companies in each type of business reporting profit sharing plans; (2) the number of employees involved, (3) the distribution of the various types of plans as considered in the survey.

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1. U.S. Senate Commission, Profit Sharing and Incentive Taxation, Washington, D.C. 1939, p. 135

728 companies having profit-sharing plans grouped by industry and showing number of plans of each typs

Type of business	Number of companies	Normal number of smployees	Pension plans	Profit percentags plans	Wage-dividend plans	Bonus plans	Stock-ownership plans	Special plans
Mining and extractive industries	9	28,761	7	1	1	4	1	1
Manufacturing industries:								
Food and kindred products	42	161,214	29	8	--	18	2	--
Tobacco	4	20,425	2	2	--	2	--	--
Textile-mill products	17	15,703	5	5	1	9	--	1
Apparel and finishsd products	4	7,078	2	1	--	2	--	--
Lumber and timber basio products	5	3,347	--	2	--	3	--	--
Furniture and finishsd products	10	18,382	2	4	--	4	--	--
Paper and allied products	18	28,082	7	9	--	5	1	1
Printing, publishing and allied trades	30	17,632	11	16	1	7	1	2
Chemical and allied products	40	105,164	25	12	2	23	--	1
Petroleum, coal, and natural gas	27	228,982	21	2	--	7	4	2
Rubber products	6	43,542	4	5	--	1	--	--
Leather and leather products	13	34,172	5	3	1	5	1	1
Stone, clay, and glass products	21	74,744	14	7	1	8	1	--
Nonfsrrous metal products	12	28,930	10	--	--	5	--	1
Eleotric machinery	22	182,358	9	9	--	10	1	1
Other machinery	57	129,398	19	21	5	30	2	1
Autos and squipment	10	222,021	1	3	--	7	--	1
Other transportation equipment	10	54,138	8	2	--	3	--	--
Mail order	3	59,973	--	2	--	2	--	--
Chain stors	16	139,447	4	8	--	12	--	--
Other retail	29	59,603	11	11	2	15	--	--
Public utilitiss	45	122,614	45	1	--	4	--	--
Communication	3	301,416	3	--	--	--	--	--
Transportation (other than railroad)	8	51,087	8	--	--	1	--	--
Insurancs	55	85,790	44	1	--	12	1	4
Financial	83	32,245	68	9	1	24	1	2
Service	28	11,091	13	6	1	11	--	1
Total	728	2,563,787	415	178	18	295	18	24

Source: U. S. Senate Commission, Profit Sharing and Incentive Taxation, Washington, D. C. 1939, p. 135

Attitude of Organized Labor to Profit Sharing

From the very inception of the profit sharing philosophy, labor unions have been active in opposition. Reasons advanced are many, but chiefly revolve around the following objections, some based on practical grounds, others on theories that appear to be inconsistent with the welfare of labor in the long run.

Among the practical reasons are first, the argument that profit sharing aims to keep wages down and that the employer, by holding out to the employee the lure of profits, decreases the payment of market wages and thus the arrangement does not benefit the worker at all, even though a share of the profits is given him.

Again, through the inclusion in the agreement of eligibility requirements and penalty clauses in the case of withdrawal during the year, the mobility and bargaining power of the worker is destroyed.

Labor leaders in general have denounced profit sharing as an attempt to do away with unions or hamper their effectiveness.

The British Trade Union Congress in 1923-25 condemned co-partnership and profit sharing as "designed to mislead workers and prevent trade union solidarity."[1] John F. Tobin, late President of the Boot and Shoe Workers'

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1. Encyclopedia of the Social Sciences, Volume II, Profit Sharing, p. 489.

Union expressed a similar view, noting that "profit sharing plans are intended to wean away employees from unions so that they may not be in a position to bargain collectively for wages, hours and improved conditions of labor."[1]

In 1920, William Green, then Secretary-treasurer of the United Mine Workers of America voiced his disapproval of profit sharing as a substitute for higher wages when he stated, "If the profits of a concern will permit of distribution among the men employed, the money should be paid in wages that would be regarded as just and fair."[2]

It is furthermore claimed that profit sharing does not meet the needs of the worker in that labor is not in a position to wait for its share any length of time. The worker suffers if he does not get all that is coming to him in his pay check. Consequently labor unions through increasing wages are said to hold for him and his problems a more satisfactory solution.

To what extent are these arguments real indictments of profit sharing? Adequately considered, these ideas are not valid criticisms of profit sharing per se, but of the choice and administration of any particular plan.

While the early experience with profit sharing as practiced by some employers justified the charge that wages were kept down, today's plans are fairly uniform in accept-

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1. National Industrial Conference Board; Profit Sharing Experiences in Industrial Establishments, (June, 1920) p. 24.

2. Burritt, Dennison and others; Profit Sharing (1926) p. 80.

ing the principles that a fair wage must be paid. There is furthermore no reason why profit sharing should not flourish side by side with labor unionization. It should minimize labor unrest by making unnecessary much of the needless strikes by removing the cause of much of the dissatisfaction, that with wages. More labor union activity might well be released in acting in harmony with capital to bring about a greater understanding of business and its complex problems so that the worker may be better equipped to assume his duties in an industrial democracy. The vulnerability and weaknesses of constant pressure for higher wage scales are apparent when it is realized that fixed high wage levels rob the industrial system of its greatly needed flexibility in making adjustments from time to time.

Furthermore, the mere increasing of wages in the pay envelope is often weak from the individual worker's standpoint because he tends to live right up to his earnings and finds it difficult to save. While profit sharing, unless the plan is specifically designed to establish a savings retirement fund, does not guarantee to solve this problem, waiting for the time of profit distribution is practically a means of enforced saving. With proper education and the provision of suitable opportunities the employee can be made more aware of the desirability of providing for his own future.

While few Americans would deny labor its inherent right to organize and to strike for improvements in its status, it is quite true that widespread unionization, especially if the leadership is selfish and unsound, tends to create great barriers for the development and maintenance of harmonious relationships in industry. It tends to create, not understanding, but class consciousness which aggravates the unrest instead of mitigating it. Even if profit sharing reduced the necessity of militant labor unions the results would not be ruinous for labor. Labor union leaders, if they are sincere in their avowed purpose of safeguarding labor's interests, should be willing to acknowledge the fact. If satisfactory conditions may be created for labor through a positive mechanism, such as profit sharing, these leaders should retire, in the best interests of the worker and the nation, to the background--or perhaps try to find a really worthwhile, productive job.

As an interesting commentary on the dynamic aspect of economic democracy, it may be noted that the attitude of many leaders has changed toward profit sharing through the years. The statements of William Green, one of which has already been quoted, are cases in point. In 1925, Mr. Green, now the President of the American Federation of Labor, was much more positive in his denouncement of profit sharing. He said then, "Labor does not approve of profit sharing as used

> by certain industrial concerns. The American Federation of Labor takes the stand that every employer who is able to pay more in wages than he has been giving should increase them so that the workman will receive every week that which he would under the profit sharing plan receive at the end of the year. Profit sharing is used for the purpose of discouraging organization of the workers.........The workers want better conditions every day. They do not believe in an uncertain share of the profits of a concern at some stated or unstated time in the future on condition that they work for insufficient wages. Those who believe in profit sharing do so with the thought that if there are losses in the business they will be borne by the employees because they had received a share of the profits when the earnings permitted. Profit sharing is not advocated in the interest of the workers, but to carry out the selfish purposes of the employer."[1]

In 1938, at the public hearings of the committee investigating profit sharing and incentive taxation, a much broader and more statesmanlike attitude characterized his testimony, ".....labor is not opposed to the principles involved in profit sharing, but it is opposed

> to the way in which it has been developed and operated--recognition of real partnership and frank acceptance of the privileges and rights derived therefrom would be the greatest incentive to sustain efficiency in work that industry could devise--if the earnings of the industry would justify an equitable distribution of the profits of industry between investors, management, and employees let it be done, with a full understanding and in full cooperation with the representatives of the workers. The one trouble about profit sharing, as practices by a number of corporations, is that it has created suspicion and distrust, because the workers know nothing about the basis upon which the profits were distributed. There is a great need of frankness and open dealing between the management and the workers today. Let the workers know the truth."[2]

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1. Tracy, M. E., Our Country, Our People, and Theirs, Macmillan Company, 1938. p. 10

2. Public Hearings before Senate Subcommittee of Finance investigating possibilities of Profit Sharing and Incentive Taxation; Washington, 1938. p. 92.

In this changing tenor of the appraisal of profit sharing by representatives of organized labor lies the promise that a more satisfactory understanding of our industrial relations problems will be reached. If more enlightened action would follow, better alignment of labor and capital interests lies in the realm of reality. Candor, frankness, and dquare dealing by all are the principal requisites.

III

SETTING OF THE PROBLEM

Let us for a moment view the United States and its people, and their activities from an imaginary vantage point in a stratosphere liner. What unfolds before our eyes?

We marvel first at the physical environment of the 131,596,000 inhabitants, 3,026,789 square miles of well-balanced land, or 15 acres per capita.[1] This land is gifted with almost every kind of natural resource and advantage. The rich, plentiful soil and a favorable climate allows the production of vastly greater supplies of foodstuffs than the people need. There are available plentiful supplies of wood, waterpower, coal, iron, oil, aluminum, copper and other minerals. For only few of the needed elements, such as tin and rubber, and various luxury items--tea, coffee, tropical fruits--do we look to foreign sources.

Closer observation will reveal first, a well developed transportation system of railways, highways, bridges, waterways and airlanes which furnish connecting links between every part of the nation, providing for greater personal mobility and the exchange of the abundance of goods produced; and, second, the most extensive and efficient system of communication in the world.

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1. Tracy, M.E., Our Country, Our People, and Theirs, Macmillan Company, 1938. p. 10.

The people are a healthy, sturdy, well educated race, products of the American "melting pot", drawn from almost every race and nationality on earth and welded into a basically classless group. Its people exhibit more common habits, speech, thought, and ideals than any other nation of like size.

We find these people living under a democratic pattern, governed by laws which are administered by representatives of their own choosing. With certain exceptions they are permitted the privileges of private ownership and operation of business, the civil liberties of free speech, free press, free religion, trial by jury and equality before the law.

Opportunity exists for every one to follow lines of endeavor according to his personal abilities and dictates. This freedom has resulted in the greatest extension of specialization spurring on a productive development that has been unequalled in world history.

Measured by the amount of goods and services which he has available at his disposal, the American citizen is the most fortunate in the world.

The key to this phenomenal achievement in wealth creation is undoubtedly the efficiency of a free, private economy spurred on by the quest for profits. More than anything else, the important factor lies in the opportunities created by the American system for men with administrative

and productive ability and vision to exercise these qualities in the direction of achieving personal success and recognition through providing more goods and services to the American masses.

So far this exposition has dwelt on the advantages and benefits achieved by the American economy. A cautioning factor should, however, not be overlooked. It is necessary that we recognize that the key to the efficient functioning of this highly efficient, complex industrial machine is co-operation and coordination. With each positive advantage gained through greater division of labor and regional specialization the problem of maintaining balance and stability becomes more difficult. These difficulties of stabilization and coordination have produced for American business a cyclical pattern of behavior, an ebb and flow between years of prosperity and years of depression.

An examination of the long-term business growth of the United States shows a steady, upward trend regardless of business cycle fluctuations, re-occurring industrial unrest and many other maladjustments. The economic and social problems created by these maladjustments now are assuming such scope and impact that failure to solve them may seriously jeopardize the continuance of the capitalistic American system, as we know it. This is perhaps due to the fact that people do not judge standards of living on a long-term basis, but rather by their ability to satisfy their desires from day to

to day. The pleasures and plenty of several years fade quickly into the background when suddenly it becomes necessary to make a downward adjustment in their budgets. It may even be true that the unusually high living standard in the United States breeds problems because of the dissatisfaction and discontent generated in periods of crisis and depression due to the inability to maintain these high standards.

Elsewhere in the world many capitalistic democracies have been overthrown by autocratic forms of government. Undoubtedly a large measure of responsibility for the success of the dictatorships in enlisting the support of their population rests in the willingness of these people to trade some of their hard won rights of liberty for economic security. Whether or not dictatorships or other controlled and regulated economies are more successful, actually or potentially, in providing economic welfare and progress is beyond the purpose of this discussion. We in America believe not. It is significant, however, that economic conditions of people largely determine their political and social philosophy. In these periods of industrial maladjustment, then, lie the kernels of decadence for capitalistic democracy. Only through the elimination of these conditions is it possible to bolster the capitalistic system against decay.

Those people of our nation who do not suffer privation and hardship in depression times should be particularly concerned with the solution of these industrial problems be-

cause of the danger of becoming complacent and self-satisfied. This tendency seems to indicate one of the most serious shortcomings of democracy.

In a nation where the popular vote is to determine government policy it is essential that the populace be as enlighted and conscious of their responsibility as possible. The dangerous results of mass sentiment and mass action, particularly if influenced by poor or malicious leadership, are clearly portrayed in the world's turmoil today.

That the American economic machinery is not functioning at top efficiency is easily apparent when we consider that, among many examples, there are still, after eight years of reconstruction effort, ten million workmen unemployed, one third of the nation ill-housed, thousands of farmers depending on government aid and subsidy for subsistence income. The mounting costs of relief and government activities are creating an enormous tax burden on individuals and industry which is threatening to retard the resumption of economic progress.

Business and industry which cherish the heritage of free private enterprise must recognize their responsibility to society and take active steps toward stabilization and solution of the problems which are creating distress for the masses. It is essential that there be developed a much closer bond between the interest parties in American industry, a greater recognition and understanding of their mutual problems. Failure to take this initiative will leave no other alternative

than stricter, more complete government regimentation of business and industry.

As has been discussed previously America is richly endowed with all the elements that are needed for continued prosperity. We seem to have lost, or perhaps have as yet failed to discover the necessary balance wheel for industrial health and progress.

IV

PROFIT SHARING AND ECONOMIC STABILITY

What is Desirable Economic Stability?

Before an attempt is made to examine the reasons for our inability to maintain a healthy, progressive industrial society, a clarification of the term "stability" as used here is necessary.

Varying ideals in this respect may be set up by different classes of thought. The condition of economic stability which seems desirable is that of creating and maintaining a proper balance between production and consumption; organization of industry and commerce and agriculture so as to eliminate, or at least greatly mitigate, the ravages of the modern business cycle, without robbing our economy of its dynamic, progressive character. It seems quite plausible that more successful economic stability can be achieved in a dictatorial economy where all economic action is the result of central planning and coordination. The price of such stability, in the forfeiture of individual rights and liberties, promises, however, to be much too high.

There is much to substantiate the belief that capitalism and private enterprise have the potential ability to create the desired stability. A controlled economy, while creating stability, also tends to develop a stagnant economy since the initiation of improvements, new products, and the like, rests with the planners. The thousands of former luxuries which have become the necessities of today in this country sub-

stantiate the claim that private enterprise, spurred on by the quest for profits, is the greatest creator of material well-being.

The main thread in the pattern of greater economic prosperity for our country is production. Only through increased production and greater distribution can the desires of the people be better satisfied. Consequently any scheme for developing stability must be built around this factor.

Rigidities

The capitalistic method of producing and distributing the needs of society is by essence a dynamic, changing organism. Essentially there should not be anything definitely fixed, if the necessary adjustments from time to time are to be made effectively. It appears therefore that we may find a partial answer to industrial instability in the many rigidities that have crept into the modern operation of industry. Fixed debt structures in the financial organization of business and fixed, inflexible wage scales are basically antagonistic to the proper functioning of industry. Nowhere is the burden of wage rate fixities and interest burdens seen more clearly than in the case of the American railroad industry. Industry, as a whole, however, labors under a similar heavy burden.

It is easy to understand the magnitude of the task of adjustment to new conditions when the question of financial relationships is analyzed. Simply stated, a business financed by ownership capital entirely or in large part can adjust it-

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self to changing price and market conditions much easier than a unit which has been built up largely by borrowed funds. Owners can usually bear reduced income conditions better if their own funds are involved. Even though the reduction of that income may breed difficulties, and inconvenience, the situation is not as critical as in the case of a business that is financed through borrowed funds upon which interest must be paid regularly in order to avoid foreclosure or receivership. The burden of fixed interest costs in such cases represents a serious interference with the process of normal adjustment.

In similar fashion fixed wage rates seriously handicap industry in the making of necessary adjustments demanded by the vicissitudes of the business cycle. The struggle for higher wage rates, though easily comprehensible from the view point of labor, provides a problem of ever increasing magnitude to industrial managers. A satisfactory solution in the light of economic stability seems hard to find. During periods of prosperity labor as a class becomes more and more insistent for higher wages, feeling entitled to a larger share of profits. Often organized labor tends to create dissatisfaction among workers, encouraging strikes and other forcible means of getting their share. When a period of recession ensues demanding the reduction of operating costs, these hard-won gains of labor develop into serious obstacles to the urgent adjustments. Often bankruptcies result, industrial operations are ceased, and

and unemployment grows.

Therefore the mechanism which is to serve as a corrective to the ills of the free enterprise system must be a flexible one.

What Are Our Economic Ills?

Observation of the activities of our people in their efforts to make a living over the past fifty or sixty years discloses a distinct change. We see an agricultural economy gradually transformed into a highly industrialized one. The freedom of physical self-sufficiency has gradually given way to dependency on a well-oiled economic mechanism. The so-called physical frontiers have disappeared; frontiers innumerable exist today, but they are of the intensive rather than extensive kind.

This transformation, which brought about the greatest expanse in living standards which the world has ever known made necessary for the people a departure from economic independence to mutual dependence. To make the vast production possible men and regions had to specialize and rely on their ability to exchange their services and income for other goods and services to meet their needs.

What has happened now to the tremendous producing capacity of this land? What are the obstacles which have grown to be apparently insurmountable for the genius of American leadership?

The answer seems to lie primarily in industrial dis-

turbances which have appeared as a mushroom growth attending advancing industrialism. Simply stated, the thesis for a developing industry is balance of consumer purchasing power and industrial and farm production. If production is to advance into newer fields and greater heights it must be dispersed increasingly among a larger and larger number of consumers, or in greater amounts among existing consumers. This is only possible if the ability of people to buy keeps pace with the increased production.

Here then lies the principal difficulty. Our economic machine is not so set up at the present that the balance between production and consumer income is constantly maintained. All along the line in a period of economic advance weaknesses become evident, costly weaknesses which eventually exert their effect on income distribution and purchasing power. Make it impossible for people to buy and the whole stream tends to dry up.

An examination of these weaknesses is now in order. Although by no means the only sources of difficulty, basically important are maldistribution of income, strikes, and unemployment. These represent the major foes of economic advance under a private enterprise system.

The Problem of Income Distribution

A reference has already been made to the basic importance of an adequately distributed national income which is necessary to feed an expanding system of production. A picture of the income distribution in the prosperous year of 1929 is furnished by the table below, prepared by the Brookings Institution.[1]

27,474,000 families, averaging four persons per family had a total income of $77,116,000,000. Analysis of the distribution of this income among these families reveals the following facts. 25,218,000 families, or 91.79 of the total received $45,331,000, 58.4 of the total. This certainly evidences a wide disparity in distribution. Equal distribution would give 91.79 of the families 91.79 of the total income. This utopian scheme perhaps is impossible of achievement and, in many repsects also, undesirable in a private, capitalistic economy because the very essence of capitalism is private gain. The extent of this potential gain provides the spark for business enterprise. Yet it is an incontrovertible fact that the continuance of private gain is dependent on continued production which, in turn, depends on maintained consumption. An upward spiral of income distribution destroys the very thing which makes the gain possible. Since the ability of industry to make profits depends primarily on mass consumption it is easy to perceive the difficulty. If those 91.9 of the

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1. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation, Washington, 1939 p. 29.

Distribution of National Income by Families, 1929[1]

Class	Income per family	Number of families	% of total	Aggregate by classes	Average Income per family
Poor	Under $2,000	16,354,000	59.525	$18,879,000,000	$1,154
Lower Middle	$2,000 to $5,000	8,864,000	32.263	26,452,000,000	2,983
Upper Middle	5,000 to 25,000	2,096,000	7.629	17,651,000,000	8,421
Rich	over 25,000	160,000	.582	14,749,000,000	92,181
		27,474,000	99.999	77,731,000,000	

1. Profit Sharing and Incentive Taxation, U.S. Senate Committee on Finance, Washington, D.C., 1939. p. 29.

families do not receive an adequate share of income their ability to keep on buying is curtailed and production has to diminish.

The inability of the remaining 8% of the families to spend their larger share of the income further aggravates the problem. A large portion of this unspendable income goes back into industry through savings and re-investment, sponsoring further industrial expansion and production. While this increase in business disperses some of this re-invested income in the form of wages it also accentuates the competition by industry for the relatively small income of the masses, thus invariable creating distress for many business units and contributing to a chain of events which may ultimately lead to collapse--help to bring on the depression phase of the business cycle.

The eventual collapse brought on by this uneven distribution spiral tends to be, in a sense, relatively as costly to the ownership interest in industry because of the tremendous losses occasioned by capital due to business failure and contraction in the recession and depression phase of the cycle. The brunt of course is borne by the common masses due to their lack of reserves and dependence on a maintained wage income. Certainly a broader understanding of this causal relationship should stimulate attempts to remedy these inequalities.

Again, it is illogical to look at these problems indifferently, from afar, as being too complicated for solu-

tion. National prosperity is the cumulative well-being of all enterprises, so that each business unit, regardless of size, bears some of the responsibility. The burden, of course, lies on the shoulders of the large concerns because of their proportionately larger responsibility for the welfare of the masses of wage earners. Selfishness, greed, lack of understanding, from a social viewpoint, on the part of the captains of industry tends to be more serious because of their prominent positions in the national sphere.

Strikes

That the disruption of the national economy by strikes is a factor of major significance is clearly apparent when we look at the vast loss to workers, employers, and the public occasioned by this form of industrial unrest. There are no authentic, complete figures available to show the total cost involved. However, the following statement by Mr. Gustav Richard Stahl, associate editor of Supervision Magazine, gives a picture of this cost, at a time when industrial relations were fairly peaceful. He says, "Although industrial relations during January, 1939, were relatively peaceful, there were enough strikes and labor disputes in the month to cause workers involved, a loss of working time value of more than $3,000,000. This loss of working time compares with $2,641,000 in January, 1938, and $13,708,000 in January 1937. The relatively peaceful conditions pre-

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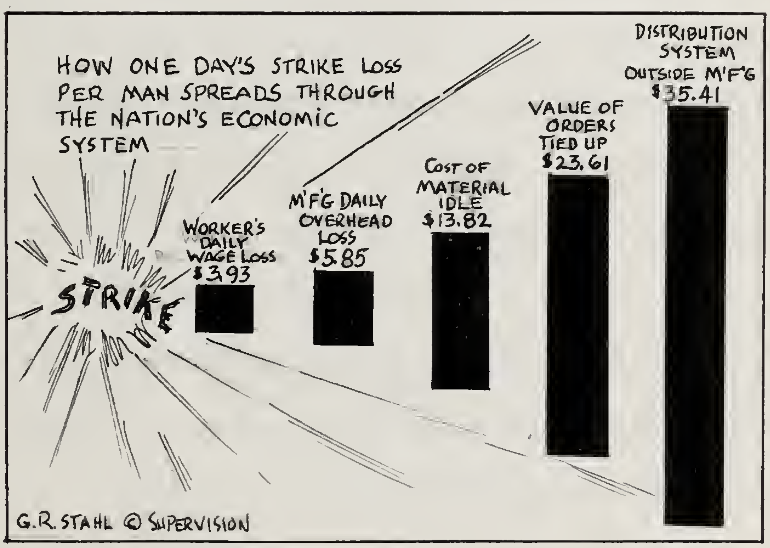
vailing in the last half of 1938 are brought out by a comparison of wage losses of $101,181,000 recorded in the first half of 1937 and of $25,116,000 for the last half of 1938."[1]

That the loss occasioned by strikes is not limited to wage earners is clearly brought out by Mr. Stahl in his estimate of how one day's strike losses spread through the entire economic structure. The chart below illustrates his comment.



SOURCE: SURVEY OF PROFIT SHARING EXPERIENCES
U.S. SENATE COMMITTEE ON FINANCE

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1. U.S. Senate Committee on Finance, Survey of Experiences with Profit Sharing, Washington, D.C. 1939, p. 43.

In the words of the author, "It indicates that the average wage loss per man-day of strike is $3.93. The manufacturer's overhead loss amounts to $5.85 and the amount of materials tied up by the strike have a value of $13.82, leaving a total primary loss of $23.61,[1] representing value of orders tied up each man-day of strike. However, this $23.61 withdrawn from the circulating channels of the distribution system creates additional expenses to that system. These costs have been estimated at 1½ times the value of the dollar at the manufacturer's door. This estimate presents the figure of $35.41, which, added to the value of orders tied up, indicates that the total loss to the national economy of the circulating power of a dollar equals $59.02 for each man-day of strikes, or about 15 times the wages actually lost by the striker. On the basis of this formula the striker's wage loss of $140,000,000 in 1937 multiplies itself into a total loss to the national economy system amounting to more than $2,000,000,000."[2]

When it is borne in mind that the only way in which the nation's standard of living can be raised is through in-

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1. It is of course true that this figure does not represent a total loss to the national economy since the materials tied up by strikes still have their basic, intrinsic value. Upon resumption of production these materials will again contribute to manufacturing value. Nevertheless, from the immediate viewpoint, this deferment contributes to industrial maladjustment.

2. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation, Washington, D.C. (1939) p. 43.

creased production of goods and services, the figures of losses develop an added significance. Only by mitigating or eliminating these disturbances is it possible to sustain an efficient producing machine.

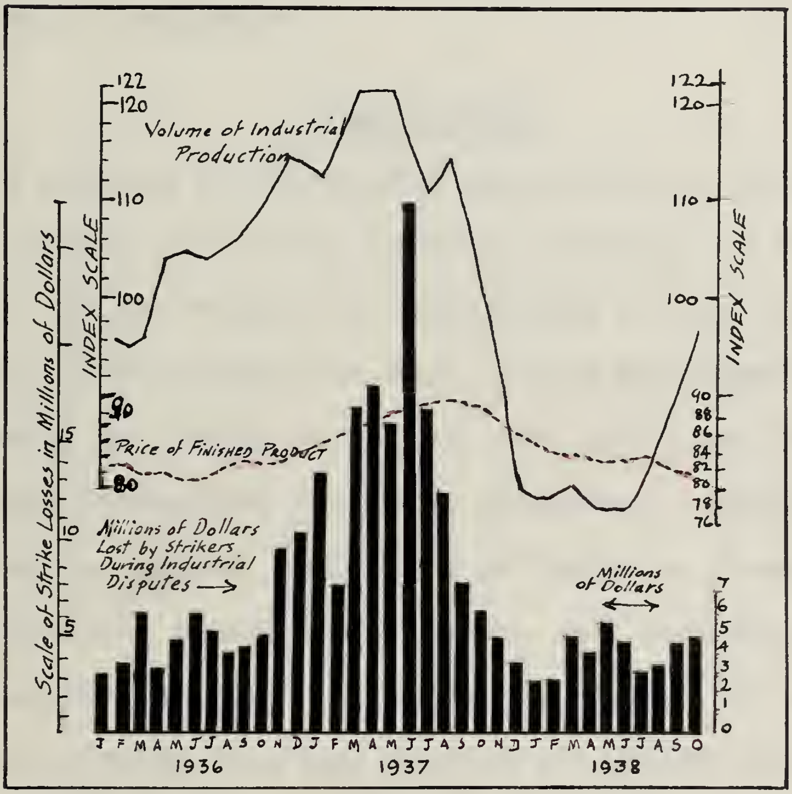
Inquiring into the causes of strikes, the United States Bureau of Labor Statistics supplies the information that strikes are due to three major causes; wages and hours, union organization, and miscellaneous. In the period from 1927 to 1937, 44 per cent of the strikes were concerned with questions of wages and hours, 40 percent with union organization, 16% with miscellaneous reasons. (1)

Inasmuch as all these reasons arise out of a feeling of discontent with the worker's lot, specific causes are of less importance than the alleviation of these general causes of dissatisfaction. Strikes in a free enterprise economy are the natural expression of that discontent, a method to enforce a better deal for labor. When one perceives the correlation of the strike curve and the production curve it is easily understandable that workers, who feel that increased production means greater profits for the employer, should endeavor to get a share of those profits. The question now arises as to the wisdom of industrial management policy which awaits the attempted enforcement of worker's desires by such socially undesirable expedients as strikes. Would it

1. U.S. Senate Committee on Finance, Profit Sharing and Incentive Taxation, Washington, D.C. p. 37.

The chart below indicates the correlation between strikes and volume of industrial production.

Effect of Industrial Strife on Production



SOURCE: Survey of Profit Sharing Experiences, U.S. Senate Committee on Finance

not be better to develop some mechanism beforehand to allow a more equitable sharing of improved industrial income which would obviate the recourse to strikes?

Insofar as much of labor union activity is undesirable, unwarranted, and uneconomic, both from the standpoint of labor and the public, a plan which would develop better labor relations by removing the basic causes of the trouble would be highly desirable.

Unemployment

A problem of increasing significance, both to the individual worker and to the national economy, is that of unemployment. To the worker it constitutes one of his major difficulties, particularly in view of his dependence on a regular weekly pay check to satisfy his wants and those of his family. With inadequate financial reserves, impossible to build up because of the inadequacy of wages to cover much more than a subsistence standard of living, and increased specialization demanded by the industrial job today, the worker's mobility is becoming more and more of a negative quantity. If he loses his job he cannot easily find another because of these and other conditions.

Under such conditions the stabilization of employment is one of the major needs today. Many efforts are being made to mitigate the dangers of unemployment by insurance plans and the Federal Social Security Act, and other similar attempts. The most sound solution of this problem lies, how-

ever, in the development of greater industrial stability that will make lay-offs less necessary, and in increasing opportunities for industrial employment through increasing the utilization of our vast resources to produce goods and services which the vast American market needs and wants.

Removal of this major fear would be beneficial to industry and without question contribute to the greater efficiency of the worker. A man who fears for his future job security cannot possibly do his work efficiently; he is more apt to be of low morale and initiative as well as leaning toward a feeling of discontent toward a system that endangers his security. He becomes more susceptible to the promises of reformers and other who may or may not have his best interests at heart.

Since profits are dependent upon efficient workmen in a large degree, the insuring of the worker's stability is the key essential to a contented, happy work force.

In the interests of the national economy it would be much preferable to develop a sound method of curbing the ravages of unemployment by building up the worker's security through making it possible for the worker himself to protect himself against these dangers. Merely looking to legislation for remedies tends to involve costs which are tremendous. Relief expenditures which mount to huge sums when unemployment becomes widespread represent an unnecessarily large diversion of federal funds into these channels. It would be

better to attempt a cure of the causes than the mere supplying of palliatives.

While it is quite true that the causes of unemployment are obscure and varied, it is just as true that maintenance of prosperous conditions is not possible if our economic system is to be subjected to recurring unemployment as has characterized our recent business history. Business and industry cannot function at top efficiency if millions of people lose purchasing power and become lost customers.

The only effective remedy for unemployment is work. Profit Sharing holds a potential solution to much of industrial employment problems because it is a method which supplies elasticity to the employment mechanism.

Objectives of Profit Sharing

In the solution of the problem of industrial stability Profit Sharing aims at these broad economic objectives: first, the increase of industrial output; second, the increase in labor's share of the industrial income; third, the stabilization of employment; and fourth, the welding of a more homogeneous economic society.

The importance of the first objective hardly needs emphasis. A nation's standard of living can be measured only in terms of the goods and services its economy produces for, and is received by its people. It is not possible to have more food, more clothing, more automobiles, more luxuries

which make our lives fuller and richer unless more is produced.

Prosperity during the tremendous industrial development of the United States was achieved because of many favorable factors--plentitude of natural resources, capital, labor, transportation and an expanding population which served as a huge domestic consuming plant.

Fear is often expressed that now, in the face of a declining rate of population growth and retarded immigration, in fact, the probability of a static population numbering about 150 to 160 million inhabitants by 1960, industry cannot be stimulated by a similar consumption motive and that there must develop a curtailing of production. Since it is true that living standards depend on production of goods and services a downward revision of living standards thus appears inevitable.

While it is obvious that some adjustment must be made it is fallacious to assume that it must be in the direction of curtailed production. Even a static population can stimulate greater and more abundant production if a constantly larger share of income is widely dispersed among the masses. The Brookings Institution study on <u>Income and Economic Progress</u> discusses this question thus, "Concern over the arrested rate

> of population growth is obviously based on the thought that what is required to call forth productivity is expanding demands for such basic things as food, clothing and shelter. But if all we need is hunger, a yearning for clothes, or more housing room, we might well give first consideration to the unsatisfied wants of the existing population. All the 5,169,000

farm families and the 14,399,000 urban families with incomes less than $2,500 constitute a potential market for these very classes of goods, not to mention the additional, though less exigent demands of another quarter of our population whose income ranged from $2,500 to $4,500. All told, they make up 90% of our people and the supplying of their unsatisfied wants would furnish a quantity of employment and a volume of business activity fully adequate to the maintenance of prosperity and the achievement of economic progress without the addition of a single person the our population."[1]

These masses are not achieving full satisfaction of their wants primarily due to their inability to buy more. A more satisfactory amount of purchasing power would work for greater personal as well as national prosperity. Therefore it would be highly desirable to develop a more satisfactory method of apportioning to labor its share of the national income. The puzzle is how to achieve a better method of distribution without disrupting our American economic system.

The promotion of the third objective, that of stabilizing employment is closely akin in significance to the solution of the wage problem. The cost of unemployment, individual and social, has been discussed in a foregone chapter. The necessity of labor's steady, maintained pay envelope is of paramount importance. Labor's dependence on a secure job is increased by the immobility which has resulted through increasing division of labor and the inability to accumulate reserves from the wage income for contingencies.

The fourth objective is to weld a more homogeneous

1. Brookings Institute, Income and Economic Progress, Washington, D. C. (1935) p. 79.

Industrial society. In a capitalistic, free enterprise society the chances for survival of that system increase with the acceptance and belief by the greatest number of people of the principles on which the system rests.

How Will Profit Sharing Attain these Ends?

It is rather difficult to determine just which of these objectives should be considered as the starting point of any corrective program because the problem is so many-sided and inter-related. Since industrial production can be stimulated only through greater consumption, more adequate income distribution and increasing labor's share of industrial income appear to hold the key to solution.

Various methods have been advanced toward the achieving of this end. They range from radical schemes such as advanced by the proponents of Communism, Socialism, equal wealth distribution to more reasonable expedients of higher money wages and lower prices.

It is significant to note that by itself none of these proposals promises to bring a satisfactory solution. The plans of communistic and socialistic reform do not appear to hold the answer because the revised economic structure would lack the incentive which capitalism possesses. Furthermore equal distribution of wealth and income among the population would not greatly raise the average income. Figures from the Brookings Survey on Income and Economic Progress show

that, based on the national income in our most prosperous year 1929, $80,882,000,000, an equal distribution of the entire amount among our population would have given each person about $625 or approximately $2,500 per family.[1] This level, while undoubtedly raising the standards of many, would not be sufficient to satisfy the group as a whole. The necessary combination requires an ever increasing national income through the full utilization of our productive resources. This in turn may only be brought about by dispersing a greater share of the production to the bulk of the population.

Profit sharing, because it is the most feasible method of achieving the second objective mentioned in this study, that of increasing labor's share of industrial income, is the greatest potential force to stimulate greater production.

The key to the success of profit sharing as a stabilizing force in industry lies in its ability to increase labor's share of income in a sound, economic manner. An increase in labor's income is essential, as has been pointed out previously, because of the basic importance of maintaining adequate purchasing power in the hands of those people that provide the largest market for industry. Only by increased buying of the masses can the stimulus to advancing industrial production, under normal times, be found.

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1. Brookings Institute, Income and Economic Progress, Washington, D.C. (1935), p. 78.

How does labor receive its share of the national income? Does the existing method produce a just and adequate proportion for labor?

It is commonly felt, as discussed under the section on income distribution, that labor's share is not large enough to sustain the forward movement of an advancing economic system.

Labor's share is distributed primarily through the wage system. Adam Smith, writing a century and a half ago in the Wealth of Nations, stated that "the produce of labor constitutes the natural recompense or wages of labor."[1] The working out of this simple, sound theory constitutes a very difficult problem which frequently breeds labor troubles and disarrangements. Messrs. Watkins and Dodd, in their Management of Labor Relations, say that, "Were it possible to devise a simple but definite formula for determining precisely what each worker produced and then to insure that he would receive the equivalent of all of his production many of our economic ills would disappear."[2]

Though the quest for this formula has absorbed much attention in economic history the abundance of today's economic ills bears witness to the fact that no satisfactory solution has as yet been found. Part of the reason for this

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1. Watkins and Dodd, The Management of Labor Relations, p. 332.
2. Ibid., p. 332.

may abound in the fact that a wage system tends to create classes and class consciousness which interfere with the building up of a homogeneous industrial society.

A sound wage system is of course highly essential because around it revolves the satisfaction and contentment of the labor factor of production, without which industrial harmony is impossible. The worker individually depends primarily on a continued flow of wages to maintain his accustomed standard of living and to provide some reserve for his old age or in the event of death, protection for his family and dependents. Economic society as a whole depends on an adequate wage system because of the interdependence of peoples and the dependence on a well functioning exchange system rather than individual productive ability.

In considering the efficiency of any wage system a distinction must be well marked between money wages and real wages. Real wages are not measured by their amount in dollars and cents per hour or per day but by the amount of goods and services which they command. In the post-war inflation in Germany a worker, though paid millions of Marks per week, could not satisfy his wants because those Marks had little purchasing power. Real wages cannot be increased by any means except increase in production of goods or lowering of prices. Artificial ways of raising wage scales, for example by union activity, while feasible for the benefit of any individual group, can be of little benefit to labor generally unless production is at the

same time increased.

A destructive tendency in wage rate determination in modern times has been the development of high fixed wages and consequent wage level rigidities. Inflexible prices, whether for goods, services, or labor discourage use of the priced factor and constitute tremendous barriers to advance in a dynamic economic system. High fixed wages are translated into higher costs of goods and, if fixed wages are generally raised, prices of goods tend to go up correspondingly, nullifying in the long run any gain in real wages.

In evaluating the significance of wage level rigidities it must be borne in mind, of course, that the ratio of labor costs to total costs varies considerably between different industries. This variance is shown by the results of a survey recently made by the Federal Trade Commission of operations in thirty major industries.[1] The table on the following page lists the labor cost ratios.

It is apparent, as the study points out, "that some industries with increasing wages will have to add to selling prices while others could probably absorb such advances without any serious effect on prices."[2]

1. Enright, William J. New York Times, issue of April 20, 1941.

2. Ibid.

Labor Ratios For Thirty Major Industries [1]

Industry	Number of Companies	Labor PC
Machine-tool accessories	7	32.6
Steel castings	6	31.8
Knit goods	19	29.3
Firearms, ammunition	4	29.1
Electric machinery	19	28.5
Clothing	5	26.2
Steel	10	25.2
Tools	7	24.9
Clay products	6	24.2
Carpets, rugs	7	23.2
Engines	9	22.7
Office devices	10	22.4
Boots, shoes	16	22.1
Paper	16	20.1
Heating, cooking equipment	8	20.1
Copper	6	19.6
Refrigeration, air-conditioning	5	19.0
Railroad equipment	11	18.3
Machinery	14	17.1
Gypsum, asbestos roofing	10	17.1
Radios	7	16.7
Biscuits	4	13.8
Baking companies	7	13.0
Tin cans, tinware	4	12.5
Domestic laundry equipment	8	12.2
Canning	7	9.3
Petroleum	13	8.4
Paint	9	6.5
Milk	12	5.0
Carbonated beverages	6	2.9

The relation of wages to the business cycle must furthermore be given consideration. While the increasing of labor's share through raising of wages may be quite feasible in good times, depression conditions which demand cost reductions make necessary cuts. Again, in bad times,

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1. Enright, William J., New York Times, issue of April 20, 1941.

a fixed wage income may very easily turn into a fixed rate per hour or day, with no work to be had. The only net result of this policy is to breed dissatisfaction and to contribute to labor unrest.

From the psychological angle it may also be noted that wage increases in times of prosperity when industrial profits are high do not serve entirely to remove the feeling of labor that capital is profiting excessively at its expense.

Profit sharing as a means of increasing labor's share of the national income possesses a greater flexibility and permits the necessary cost adjustments needed in business operation under the conditions imposed by the business cycle.

A sound wage system is of prime importance as a starting point because labor depends on its regular weekly pay envelope to exist. Therefore a wage level sufficient to maintain a satisfactory standard of living must be established. It is the opinion of William Green, President of the American Federation of Labor, that "the wage established should provide for the payment of an income to the worker that would insure him and his family a living in decency and comfort."[1] Just what constitutes such a level, in terms of money, is difficult to say. The influence of the price level, living costs in different sections of the country, competition within each specific industry must be considered in the determination of a satisfactory dollar wage. This wage level, once established,

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1. Green, William Hearings before Senate Committee on Finance investigating Profit Sharing and Incentive Taxation, Washington, D.C. 1939. p. 107

would not, of necessity, be a rigid, inflexible level, but one that would be changed basically as the cost of living advanced or regressed. The "Cost of living adjustment" plan used by the General Electric Company suggests a mechanism for this purpose. In 1935 when attention was focused on the disparity between wages and the cost of living this company adopted a plan designed to remedy this condition. Mr. Swope, President of the Company, stated the problem thus,

> "In 1935, when business was beginning to improve, there there was a good deal of unrest. Wages had gone up, we had increased wages, and the question was whether you were going to increase wages too rapidly, and when you do increase wages of course it becomes more or less rigid. It is very difficult, not only difficult but heartbreaking to reduce them, and of course the fear on the part of labor was the question of the cost of living. Mrs. Workman has to watch the budget, and if costs are rising and her income is just the same, she is constantly complaining, so we tried to adjust it. As the cost of living, which is the index given out by the Department of Labor, rises over the standard which was in existence at that time, we would increase the earnings of all people receiving less than $4,000 a year. No adjustment we thought was necessary for the people getting a larger income than that."[1]

Consequently in October, 1936, wages were increased 2%. That meant that a man getting $30 a week would receive $30.60. Increases rose to 5% subsequently, making that basic income $31.50. In 1938 when the index fell the wage rate increase was decreased from 5% to 3%, giving the man $30.90. The company reported that neither the increase nor the decrease were objected to by the workers.

Once a satisfactory level has been determined, upward adjustments, when increased business and profits make them justifiable, should be made through a flexible mechanism.

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1. Hearings before Senate Committee on Finance, Washington, D.C. 1938. p. 137.

Since increased wages are possible only through increased productivity and higher industrial income, and since this increase in industrial income is subject to wide fluctuation, increases in the rate of labor's compensation must of necessity be capable of adjustments. The most feasible and satisfactory method is profit sharing because it bears a direct relationship to profits. When profits are made, give labor a share of them. When business conditions make profits a waning or negligible quantity an informed, profit-conscious labor force can and will have no objection to a necessary reduction or elimination of these extra payments. Provided then that the level of wages has not been unduly raised, downward adjustment of prices in order to secure larger sales volume would be more possible without upsetting the industrial balance.

Increases in labor's share should come after they are made possible, after the gains and greater profits have become factual. In today's bargaining methods labor's gains are too often predetermined and become costs of the business before the income can be fairly estimated. It is like putting the cart before the horse. Increasing costs necessitate higher prices which in turn tend to retard sales volume. It is largely the increasing costs of doing business which in the long run precipitate recession and depression, when these costs outrun the ability of the masses of people to sustain their buying of industries' products. Downward adjustments of high wage scales are bound to meet with vigorous opposition

and resentment by labor and often leave open no course to the management except curtailing of production and closing of plants. The result as far as labor is concerned is far less satisfactory than the foregoing of a higher fixed wage rate even though on the face of the situation such an increase may have seemed feasible.

One of the difficulties imposed on the attainment of this objective is the fact that due to the wide fluctuations in industrial earnings and profits, sharing of such profits as are made may not appreciably affect the general labor income. Corporations frequently have no net income and many times are operating at a deficit. Statistics of Corporate Income in the year 1935[1] showed that of the corporations reporting to the Bureau of Internal Revenue 164,231 returns indicated a net income while 312,882 showed no net income. On net capital assets of $100,480,000,000, corporations showed, after taxes, a net income of $4,430,000,000 a return of less than 4½% on net assets. The extent to which workers' shares could be increased materially appears to be doubtful.

Distribution of the national income among the constituent parts of the economy in the year 1935 was made on the following basis; 68.9 percent was paid in wages and salaries, 5.1 in compensation for injuries, pensions and relief;

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1. Bureau of Internal Revenue, Statistics of Income, 1935, p.13.

10.6 percent was accounted for by entrepreneurial withdrawals; 2.4 percent was allocated as rent; dividends amounted to 5.1 percent and interest payments stood at 7.9 percent.[1] These figures indicate that the profit distribution was relatively negligible and suggest that any further sharing of them with labor would have been first, inconsequential from the workers' view, and second, unsatisfactory to the capital element, so much so perhaps as to discourage further undertaking of risks.

However, this does not necessarily imply the futility of profit sharing since it may well be argued that had profit sharing plans been more widely in operation, as previously suggested, earnings might have been better and more stable and more corporations would have shown higher earnings and income.

The effects of such a policy on employment stability can easily be traced. While unemployment may stem from various sources and causes, the effects of unemployment due to business cycle conditions would naturally tend to be mitigated since through greater flexibility in making readjustments in costs, curtailment of the working force would not be so drastic.

Furthermore, can wider and more stable employment be promoted by legislation, by shorter hours and week laws? The answer lies rather in the expansion of industry, in the creation of new opportunities for employment than in a divi-

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1. J. Moore and M. Hoch, Readings in Modern Economics (1941) p. 542.

sion of the existing work. A static industry cannot in itself absorb all the unemployed or provide opportunities for the new labor which comes on the market each year. With an advancing technological development the re-employment of displaced labor rests largely on the possibility of constant industrial and commercial expansion.

Profit Sharing would definitely help to create a more homogeneous economic society. The profit motive and private property rights represent two of the most powerful institutions in our modern industrial society. The power of these incentives to produce marvelous results is attested by the American economic and industrial development. It stands to reason, however, that the degree of success that can be maintained is definitely dependent on the motivating influence of these institutions on as many as possible of the members of the group. It is quite true also that in the 150 years of industrialism there has been a gradual divorcement of these influences from the motivation of many people. Class strife and dissatisfaction, as well as many modern social problems find their inception in the conditions created by the factory system which saw the master craftsman parted from the ownership of his tools of production and reduced to the state of a worker, a wage earner, depending for success on the fortunes of the capitalist. Although in this country this process has not manifested results similar to those in Europe until relatively recently because of the tremendous

opportunities for all to profit by the exploitation of our vast resources, the problem of equitable industrial relations is becoming more weighty. We are approaching a state of industrial maturity when development must become intensive rather than extensive. Such a transformation demands a very well balanced economic and social structure. To keep people satisfied and properly attuned to the exigencies of business a more sidespread understanding of profits is essential. The best way to instill the working of a profit system in the minds of our people is to make them capitalists and to let them see and feel this phenomenon. Mere talk about profits and their importance is inadequate because the term "profits" may be defined in a rather vicious sense. The Marxian doctrine points to capitalistic profits as something, a gain, which rightfully belongs to the worker and of which he is robbed by the capitalistic owner. Consequently it may be difficult to explain to the worker that this is fallacious. Bonus plans and other supplementary forms of wage increases may merely serve to increase labor's feeling that the capitalist's conscience is bothering him so that he attempts to appease the worker by giving him a bit of the cream.

Make the labor participation a true, out and out share of the profits and much of this misunderstanding will disappear. The success of this philosophy depends on the candor and frankness with which management proceeds in estab-

lishing a feeling of mutuality of interest and harmony with the labor factor, and, of course, the understanding and regard with which labor goes into the partnership.

V

PROFIT SHARING AND THE COMPANY

Since what we term "national prosperity" mirrors the cumulation condition of thousands of individual business and industrial units it is logical to appraise the value of profit sharing in creating greater success and stability for any individual unit. If, through profit sharing, the company may be put on a more sound basis, the benefits will tend to spread fan wise into industry as a whole.

Of what is a business enterprise composed? To the economist it is a combination of the factors of production--materials, money, men and management for the purpose of producing and distributing some desired article or service at a profit.

The enterprise, if it is to accomplish its basic motives of want satisfaction and profit making, must have raw materials, land, climate with which to work. It needs labor, physical and mental, to carry through the processes devised for production. It needs capital--money, tools, machinery--which have been developed to increase the efficiency of the other productive elements. Finally, the process needs the guiding hand of a capable, prudent business manager. It needs markets wherein this production may be sold profitably. Proper incentives and rewards must be present to stimulate the most efficient utilization of all these factors. A

little thought will furthermore lead to the conclusion that the greatest net result will be attained only if all these factors cooperate to the greatest degree and are motivated by the bond of mutual interest.

Another characteristic of modern business that has an important bearing on the problem is the size and complexity of industry. No longer is the one-man business the customary vehicle. Scope and conduct of enterprise has necessitated the building of efficient organizations, the delegation of authority and responsibility. The growing gap between ownership, management and the rank and file of the workers is responsible for many of our present day ills because, on one hand, employees tend to lose their feeling of importance and on the other, the management, through lack of contact, loses understanding and concern over the problems and feelings of the employee. These circumstances tend to destroy the morale of the organization which is so highly important for continued success.

The biggest problem perhaps of the executive is to surround himself with an organization that feels like he does about the business. On this bond of good will hinges the success of the business. Frequently the claim is heard that the workers at the bench are too far removed from the scene of action to be responsible for profits in business. But workers are customers also, they are advertisements--good or bad--for the business. A happy, contented worker is bound to

create more goodwill than a sour, disgruntled one. Public goodwill today is highly important in view of the intense competition that exists.

The Labor Factor

While much of the question of labor and its share of the industrial income has already been discussed, a bit of further analysis of the part labor plays in the business scheme is not amiss.

Although socially conscious employers have long recognized the need of satisfactory employer-employee relations and have built their programs to consider possible points of conflict, its general neglect has produced much labor unrest and dissatisfaction.

It is in the handling of the labor problem that one meets conflicts, innumerable, it often seems, between employers and employees. What are the worker's problems? Poor working conditions, unsatisfactory hours of work, inadequate financial returns mirror themselves in the disputes between labor and capital. Lack of solution often results in loss of employment, loss of income, loss of faith for the employee; loss of profits through increased costs and particularly loss of goodwill--both worker and public, for the management.

Since ours is a profit economy it is conceivable that frequently the business man may be absorbed only with

those factors which lead to or restrict his ability to make profits. Economic history substantiates the suggestion that altogether too frequently enterprisers have exclusively devoted their time to the solution of their technical problems, production costs, developing of production capacity, perfection of products and processes. In their engrossment many have been wont to regard labor as only another factor to be manipulated as a piece of machinery. Too little consideration has often been given to labor as a human element.

Selfish employers may often be tempted to regard labor as a commodity, commanding a certain price under certain conditions, and which may be bought and sold as circumstances warranted. From a social viewpoint, nothing, is farther from the truth. While labor resembles a commodity in certain aspects, it nevertheless is a living thing. The skill and productivity of the worker are a part of a human being, which, unlike the inanimate commodity, has problems of its own welfare and its dependents to consider. It is not mobile to the extent that a commodity is--difficulties of obtaining an adequate income, lack of knowledge and understanding of the most profitable markets for labor's skills, fear of insecurity and many other factors combine to make labor dependent on its constant use and earnings.

This incontrovertible fact, that labor is human, living, sensitive to changes and maladjustments points to the need of recognition by employers that in dealing with

this factor of production care and intelligent, socially conscious administration is essential.

Serious difficulties often arise through the failure of management to appreciate and understand the psychology of labor. A "holier than thou" attitude frequently characterizes the employer's viewpoint on labor questions. Through misunderstanding of the basic desires of the worker management often treats them as if they all were communistic in tendency and even in minor grievances and complaints tries to find an interference with his assumed vested rights. A paternalistic feeling that management knows everything best may be instrumental in neglecting important points of dispute and result in building up larger discontent.

What does labor want? Among the myriad of pertinent considerations the most significant is probably the desire for security--of job and income. Dependent as the average worker is on his job for a means of satisfying his basic wants and needs, a prime requisite is stable employment. His inability to accumulate reserves develops a pressing problem for solution if that job, for one reason or another does not constantly provide him with a steady income. That job, furthermore, must be one that provides wages commensurate with his standard of living, that will allow him to prepare for the emergencies of sickness, accident, old age and death. Maintenance of the customary standard of living presents many problems for the wage earner

due to changes in the price level. Increases in the price level raise the cost of living and stimulate labor to demand higher wages. Management resistance brings discontent, culminating usually in strikes, lock-out or other disturbances. Furthermore the dynamic nature of the standard of living magnifies the instability of the worker.

Another prominent desire is that of recognition, of opportunity for advancement. They want recognition of their achievements and contributions to higher standards of living.

Another fundamental instinct of man makes him revolt at oppression or confinement. While many employers do not consciously endeavor to classify employees as of lower rank and merit it is dangerous to adopt attitudes and policies which tend to create such an impression.

Fear of loss of job and income may retard any untoward action on the employee's part, yet the condition does nothing to help create and maintain morale, loyalty and cooperation which in the last analysis are the basis of satisfactory business relationships.

Of the complex motivation pattern of the worker several other instincts are of significance in this study. The motive of acquisition is important. Men like to possess things that can bring them physical or mental satisfaction. Since our society largely measures a man's success and pres-

tige by his possessions it is no wonder that a worker should possess the desire to own and that such desire should prove a powerful incentive to activity. A thing owned tends to assume a distinct personality, recognizable perhaps only to the owner, but nevertheless there. "When the impulse of

> ownership is satisfied in a reasonable way, there is developed a respect for property. Under such circumstances sabotage and violent destruction of property diminish. A deepened sense of propertylessness or injustice breeds excesses. As workman grows more prosperous in a material sense, the more conservative and law-abiding he becomes.... The propertied employee feels more secure and is opposed to disorder and revolution."[1]

To the business man who is interested in maintaining the loyalty and cooperation of his workers recognition of this view may be of inestimable value in shaping his employee relation policies, even though present industrial requirements of capital may prevent the mass of employees to be actual owners of production facilities. To the extent that the vast majority of workers are denied an opportunity to satisfy this instinct of ownership of the tools of production, this condition may contribute much to the friction between management and employees. A possible solution may be found through greater extension of democratic control and ownership, or at least, sharing the benefits derived from such ownership through real profit sharing.

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1. Watkins and Dodd, The Management of Labor Relations. 1939. p. 104.

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Thwarting of this basic motive may give rise to many alternate, less desirable means of gratification--increased union activity, governmental regulation and the like.

Profit sharing, because it clothes the worker with many of the privileges of the capitalist possesses the most promising answer to the worker's many problems. It tends to satisfy the basic instincts which have been described and remove the barriers which separate labor and capital today. Aptly administered it should go far in the attempt to stabilize industrial relations. Since, under the incentive provided by the acquisition of profits, industrial development has progressed so tremendously in the United States, is it not reasonable to believe that with a similar motive the worker might become more cooperative, efficient, and satisfied?

What Part Should a Profit Sharing Plan Play in Company's Employee Relations Program?

The most important fact to be realized when such a plan is under consideration is that profit sharing, per se, holds little promise of being a single cure-all or panacea of all industrial ills. It is vital that no effort should be spared to produce a generally satisfactory program. Profit sharing cannot be regarded as a substitute for satisfactory wages, wholesome working conditions, unemployment insurance, sickness and health and death benefits, recreation programs and all the devices which have been developed so far

to create harmony in employee-employer relations. None of these activities should be abandoned because a mere substitution of profit sharing would be ineffective and convince labor that such a plan is a mere subterfuge of management to rid itself of these obligations.

In the words of Miles E. Robertson, General Manager, Oneida Ltd. Oneida, New York, "Profit sharing cannot be a substitute for all those things that the average manufacturer must do to take away distrust and suspicion which are naturally between stockholders and employees, or between employers and employees."[1]

A Profit sharing plan should perhaps be considered as the final link in the welding of a strong chain for fortifying the satisfaction created by these other means. It would serve as proof that managements accepts the implications of an industrial partnership.

Purposes of a Profit Sharing Plan

As aids in the development of a satisfactory employer-employee program the purposes and potential values of profit sharing are many. They range from altruism to more selfish motives of increasing the profits of the enterprise. A tabulation of purposes discovered by the National Industrial Conference Board in making a study of 161 profit

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1. Public Hearings before Senate Committee Investigating Profit Sharing and Incentive Taxation; Washington, 1938; p. 302.

sharing plans in actual operation presents a representative picture.[1] Sixty-five companies were analyzed in this portion of the survey.

Purpose	Companies Represented	
	Number	Percent
Belief in principles involved	26	40.0
To increase efficiency	19	29.2
To improve morale	14	21.5
To create greater interest in the company	12	18.5
To reduce labor turnover	9	13.8
To adjust compensation	7	10.8
To promote employee thrift	6	9.2
As a result of a strike	2	3.1

If the ideals and motives of these companies may be considered fairly representative, the picture is interesting, particularly from the viewpoint that the employer is becoming more aware of his responsibility for the safety and security of his employees. This evidences a trend of thought in the right direction even though it may not show a definite acceptance of the idea that the employee has an inherent right in his job.

That the employer's self-interest is still the predominant motivation of plans of this type is shown by the fact that the majority of purposes express a desire to improve

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1. National Industrial Conference Board; Profit Sharing and other Supplementary Compensation Plans Covering Wage Earners; 1937. p. 4.

conditions in order that costs may be curtailed, whether directly, by reducing labor turnover and eliminating the danger of strikes, or, indirectly, by making the business more productive and efficient through improving morale, increasing efficiency or creating greater interest in the company.

Increasing the Efficiency of the Worker

In what respects may profit sharing be expected to stimulate greater efficiency in the worker? It is often said that he will become more productive because he knows that if through his increased efficiency the company makes more profits he will get a share of them. While this may be true in certain cases it must not be assumed that profit sharing is the best uniform method for accomplishing this objective. The key seems to lie in the relationship between the worker's part and the profits of the business. Where it is difficult to trace directly the individual worker's contribution to profits, as in the case of mass production industries, or when the work done by an individual may be definitely measured, the successful application of the plan seems somewhat dim. Industrial management feels more certain of satisfactory results through the use of other financial stimuli in such cases. Piece rates and bonuses, though unsatisfactory in many respects, bear a more direct relation to increased efficiency. Where increased output is desired and where individual performance is capable of definite measurement, piece rates have proven more effective because of the advantages of compensating a man for his direct contribution, rather than

giving him a share in the somewhat uncertain profits of the company. Of course the net result must be analyzed. The most important consideration is the welfare and success of the business and its employees as a unit, for upon its continued operation the worker depends for his job. Often these non-partnership methods, unless definite safeguards are provided, develop carelessness on the part of the worker and costs mount because of spoiled work and other wastes which defeat the ends for which these bonus and piece rate methods were designed. Again, interest in the business as a whole and general employee satisfaction and morale may be hurt.

A manner in which profit sharing may serve to increase the efficiency of the employee is indirectly by making him more conscious of wastes and their elimination and focusing attention on improvements in processes and techniques. The great wastes that may occur in business due to injury to materials, tools, equipment, supplies drain off much potential profit. Ansurin Williams, an English writer on Profit Sharing, is convinced that, "This saving of waste is the economic basis of profit sharing."[1]

While profit sharing is probably more effective in this respect among employees such as executives, managers and others who are directly in a position to appreciate the relation of such savings to company profits, its value in stimulating the man on the bench or at the lathe should not

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1. Ansurin Williams, Co-partnership and Profit Sharing, Henry Holt and Co. 1913. p. 25.

be overlooked. These wastes often seem more obvious to the worker involved than to the objective analyst or the supervisor. This does not necessarily imply that this source of improvement is more important than the technical study and advice of the efficiency expert, who in big business, is the key to such advancement. In thousands of medium sized enterprises, however, where such techniques are not feasible because of scale of operations or cost involved, a more consciencious worker, who is impressed with his significance to the business, may be a valuable source of cost reductions. It is not unlikely that a worker may consider the job with an ownership view rather than the passive attitude of the laborer. At any rate such an attitude is highly desirable and stands to increase with an expansion of understanding by the worker of the industrial process. Here, again, it is true that bonus plans, when their function is protected through the setting of definite standards of quality, workmanship, care of machinery and materials against abuse by the workers, serve to accomplish a similar objective.

The opinion expressed by a rolling mill hand as to the value of a profit sharing plan is interesting in the above connection. C.A.W. of Philadelphia says,

> "I am in favor of profit sharing. It is a great help in reducing labor trouble. I think my employer is one of the fairest men I have ever worked for. However, a man in the office most of the time is not in a position to see things as they really are in any shop or factory. The trouble with our plan is that all employees are not benefitted. Tools are broken, materials

> wasted that I think would not be if each employee worked under the profit sharing plan, for if it were properly explained to him he would realize that he and the employer were both losing from his carelessness." [1]

This sentiment is characteristic of many others in the survey. It focuses attention on the difficulty of waste elimination by mere supervisory and control activities. Essentially there seems to be no safeguard against these difficulties comparable in effectiveness to self-interest.

Creating Greater Interest in the Company and Improving Morale

The potentialities of profit sharing in this respect arise chiefly out of the fact that a person who has an ownership relation to the business is more apt to take a vital, active interest in it. The worker who feels that his only return for his work is his contractual wages may be inclined to do only what is necessary to hold his job and no more. This passive interest may prove to be a retarding influence both to the company profits and to company goodwill. A satisfied, vitally interested worker, on the other hand, may develop into a positive crusader for his company.

Out of hundreds of statements made by employees regarding the value of profit sharing the following are typical. They show that workers feel that profit sharing will tend to create a more personal interest in the company

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1. U.S. Senate Committee on Finance; Survey of Experiences with Profit Sharing and Incentive Taxation, Washington, 1939. p.104.

and improve general morale of the work force. These conditions tend to be translated into "dollar and cents" value for both the company and the worker. A machinist writes, "Looking forward to receiving something more than just wages makes one feel he should do his best always. If my workmanship is good on our product then the customer will buy it, if not, both of us lose. The employee understands that material and equipment cost money and by keeping costs down, profits go up. Employees cannot expect to get something for nothing, but if they give their best they are sure to be rewarded." [1] An office worker remarks that, "Profit sharing does produce a better spirit of cooperation and makes one feel like a partner, causing employees to have a greater interest in the company and their work. There has never been unrest, dissatisfaction, or labor troubles in our company. I have never seen any deliberate carelessness with material and equipment, but on the contrary, I noticed many little economies practiced by employees." [2]

Employee stock ownership, while potentially serving in the most tangible way to create a feeling of interest and responsibility in the affairs of the company, has many disad-

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1. U.S. Senate Committee on Finance; Survey of Experiences with Profit Sharing and Incentive Taxation, Washington, D. C. 1939. p. 102

2. Ibid., p. 103

vantages in actual use. While it is good in times when stock prices are rising and the market value remains at a high level--at least a higher level than the purchase price--severe drops in market value have a bad effect on the morale of the employees. The weakness of stock ownership plans is magnified by the fact that a period which results in declining stock prices is usually one where the employee also faces the problems of unemployment, part-time work, or reduction in wages or salaries. Thus, unless the company were willing to guarantee the purchase value of the stock--which might prove to be very costly--employee stock ownership does not appear to be a wholly desirable method of gaining the results here desired.

Reducing Labor Turnover

Labor turnover may be defined as the "influx and exit of individuals into and out of the working force of an organization over a specific period of time."[1] Since the stability of the working force bears a direct relationship to the operating costs of the company it is highly desirable to reduce labor turnover to a minimum, that compatible with keeping the organization at the most efficient level.

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1. Watkins and Dodd, The Management of Labor Relations, McGraw-Hill Company, 1938. p. 227.

Certain causes of labor turnover are, of course, unavoidable, as separations due to sickness, old age, death, transfers and the like. Withdrawals, however, because of dissatisfactions of all kind that indicate a faulty employee relations program are avoidable to a large degree and attempts are in order to reduce these quits.

The costs of labor turnover are exceedingly high as is evident when the costs of placing an employee into his job are figured. Money is spent in hiring, instructing, training him and then orienting him to his particular job. Estimates as to the actual cost of all the items involved vary greatly. In a survey conducted by the Department of Manufactures of the United States Chamber of Commerce, a boiler manufacturing company submitted a detailed list of items representing the loss to the company each time a worker leaves. This list totalled $95.47. An idea of the probable loss to U.S. employers due to labor turnover may be gained from the following, "If we assume the average turnover rate to be the very low figure of 25% among over 32,000,000 gainfully employed in the manufacturing, transportation, trade, personal service, and clerical occupation classifications alone some 8,000,000 workers are changing their employment on the average of once a year. If the turnover of these workers involves a nominal loss to their respective employers of only $10 each the loss to employers alone would be approximately $80,000,000 annually."[1]

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1. Watkins and Dodd, "The Management of Labor Relations" p. 235.

When one considers that in skilled and semi-skilled industries this cost per worker is obviously much higher, running into hundreds of dollars. Furthermore, high labor turnover tends to develop inefficiency, wasteful handling of materials and machinery as the quality of the work force is impaired.

Profit sharing can help to cut down these tremendous losses by creating a more satisfied, alert and cooperative work force. It promises direct help in the case of that part of labor turnover due to avoidable causes and also indirectly mitigates the force of the unavoidable causes.

Where workers quit voluntarily because they are dissatisfied with wages, working conditions or hours of employment, the prospect of sharing the profits may be a countering influence. To share in profits puts the worker into the shoes of an owner and an owner nearly always regards such conditions in a more tolerant light. This is not to say that really unsatisfactory working conditions should be condoned because of profit sharing. To hold so would be foolish. But many of the minor grievances might be overlooked due to the different viewpoints which profit sharing develops. The realization that for steady, uninterrupted service an award in addition to wages is to be made would serve to cut down labor turnover to lower possible figures.

Even indirectly, in case of so-called unavoidable separations, such as dismissals due to poor business or de-

creased sales, profit sharing may help to make these separations unnecessary because of the stabilizing effect that profit sharing will promote for the entire company. It has been shown previously that due to the flexibility that a company would attain through profit sharing in adjusting its costs to meet changing conditions, fewer close-downs and dismissals of workers would be necessary.

Essentials of a Profit Sharing Plan

Before any definite profit sharing plan may be decided upon some general observations and guides are in order.

"Musts" of a Profit Sharing Plan

The following cardinal principles must be observed in any contemplated embarkation on a profit sharing plan. First, profit sharing must not be a substitute for a full market rate of wages. Its avowed purpose and intent is to better the income distribution to the rank and file and thus effect an improvement in economic condition of the worker. Consequently its effectiveness in this regard depends on the additional compensation it avails the worker. Less desirable effects are inevitable if the employee of one company feels he is being paid less than those of a competing concern in the same community, for he will naturally look with distrust on the motives of the employer in instituting the plan. Instead of creating greater harmony and cooperation it develops

discontent and grievance. Much of the labor union antagonism is based on the contention that employers have used and would employ profit sharing to deprive employees of raises in wages.

In questioning the reasons for failure of so many of the earlier profit sharing plans, one frequently finds departure from this basic principle, which undoubtedly is a vital factor in causing failure. Such lack of understanding is exemplified by the statement of the president of a large concern, employing over 5,000 men, "My idea is to pay men as regular wages an amount slightly less than the actual value of their services and then to make additional payments to them, dependent in amount upon the success of the business and the earnings of the company."[1]

Such duplicity of course tends to destroy any potential success of the plan because employees soon understand the real motives. In the above cited case the company became involved in a violent strike some time later.

<u>Second</u>, the shares to be awarded must be substantial if they are to have the desired effect. Determination of actual amounts or percentages is rather difficult but the prospective share of profits, if attained as a result of calling forth the additional effort, care, and cooperation must be fair and large enough to evidence a real partnership

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1. Burritt, Dennison, Gay, Heilman and Kendall; Profit Sharing, Its Principles and Practices, Harper Bros. p. 10.

disposition. This does not mean that the amounts, in themselves must be enormous, but rather that the percentage share should be equitable, and, preferably, predetermined. Arbitrary distribution by the management after the profits have been made, leaving the worker in a vague and uncertain position with respect to his share, do not tend to fire employees with any great deal of enthusiasm. Sharing of profits must not be a nebulous possibility, but definite outlooks, contingent only on the actual making of the profits. Only in that manner will employees have a tangible interest in making economies and otherwise increasing efficiency.

Simplicity of Plan

Of essential importance is the fact that a plan should be simple and not involve too great elaboration. Simplicity in any line is highly desirable. The desire in industry to reduce operations to simple, standardized formulae is evidence that executives recognize the value of this principle. The same thing is true of a plan designed to relieve industrial unrest. Especially in the sense that one of the purposes of the plan is to educate the rank and file of the workers to realize the importance of working in closer collaboration with owners and management, the proposed plan must be so formulated and designed as to make it easy to understand and see in operation. Some of the plans in operation at the present time appear to be involved, complicated mechanisms which the average employee probably does not under-

stand. He knows that something is in operation which benefits him from time to time by an extra amount in his pay envelope or to his credit on the accounts of the company. But do we want to let the thing go at that? If the basic purpose of stabilizing employee relations is kept in mind, the answer must be "no". Such a plan falls short of accomplishing its goal because it does little to make the employee conscious of his part. Human beings lose interest in that which they can not understand. Many potentially good chess players never develop because the game appears to be too difficult and involved.

A simply conceived and designed profit sharing plan would tend to aid the development of a profit minded worker because he could more easily understand his part in the business scheme.

Scope of Application

Who shall share in the profits?

The answer to this question may be based on the attitude which the management has toward profit sharing. Two lines of thought may influence this determination, one, whether profit sharing is regarded simply as a device to increase company profits, or, two, whether the company in addition to that desire also wishes to achieve a more altruistic or social benefit in contributing to greater employee welfare and security, and general industrial stability.

If the first is true, it has generally been held that the effectiveness of profit sharing is in direct relation to the size of the company or the profit sharing group. This belief is based on the fact that different employees have varying relationships to the actual making of profits. In commenting on the discontinuance of their profit-sharing plan, Henry S. Dennison, President of the Dennison Manufacturing Company stated that,

> "To put in a plan in a company depends on the morale at the moment, and the background of the set-up, on what these employees are doing, what their relationships to the profit account are, as to whether it is remote or whether it is direct. For the typical worker in the factory our own belief is that his relationship is so remote from net profits, buying, selling, inventing new goods, advertising, all of the possibilities, to say nothing of the swing back and forth of the cycle of business, on the cycle of various styles, goods that come in and go out, that all those things intervene between the worker on the bench and the net profit account."[1]

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1. Hearings before Senate Committee Investigating Profit Sharing and Incentive Taxation, Washington, D.C. 1939. p.256.

Executives naturally have more opportunity to influence profits. "Even though his natural ability might be as great, the opportunity of the unskilled worker to influence profits by increased effort or diminished waste is not so great as that of the skilled worker. The high wages of the latter make his time more valuable to the employer, and he is intrusted with more expensive equipment, machinery and materials. The skilled worker cannot, as a rule, affect profits to the same extent as the foreman, since the latter, by effective supervision, may increase the output of all those under him. Similarly, the opportunity of a foreman to influence profits is ordinarily less than that of those who, as members of the managerial or executive group, formulate the policies of the business. .... A purchasing agent, by a shrewd purchase or by failure to grasp an opportunity for such a purpose, may in a half-hour affect the year's profits for good or for bad more than a shop foreman could in a whole year of active endeavor."[1]

Since the only measure of the accomplishment of executives and managers is the financial success of the company in any period, profit sharing as a stimulating device seems particularly applicable to them.

The size of the group influences the effectiveness of a profit sharing plan in that the relative effect of any one member on total profits decreases ordinarily as the num-

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1. James, Dennison, Gay and Others, Profit Sharing and Stock Ownership for employees. (1926). p. 199.

ber of workers increases. It appears hard to convince a man in a large group who does not know what is going on in other departments of the plant how other employees are acting, how his personal efforts are going to affect the company and that he has something to gain by special efforts.

Again, since the successful operation of a profit sharing plan depends a great deal on the understanding and cooperation of the group it is reasonable to say that such a spirit can be created more easily in a small group than in a large one. This points particularly then at the greater relative success of plans which are limited to executives. In this connection a study made by the National Industrial Conference Board and published in 1938 indicates that the mortality of profit sharing plans designed for executives only was 8.7%, that is, only 8 of 92 plans which were reported. The same study points out that in plans for wage earners 96 out of a total of 161 were discontinued.[1]

If the more social attitude governs the management then it is essential that the profit sharing plan be as inclusive in its coverage as is possible. To achieve the objectives set in this thesis necessitates the improvement of working and living conditions of the masses rather than smaller group of executives. This does not imply that profit sharing plans should exclude the executive group but rather that the emphasis must be placed on improving the distribution of income to the mass of the labor force.

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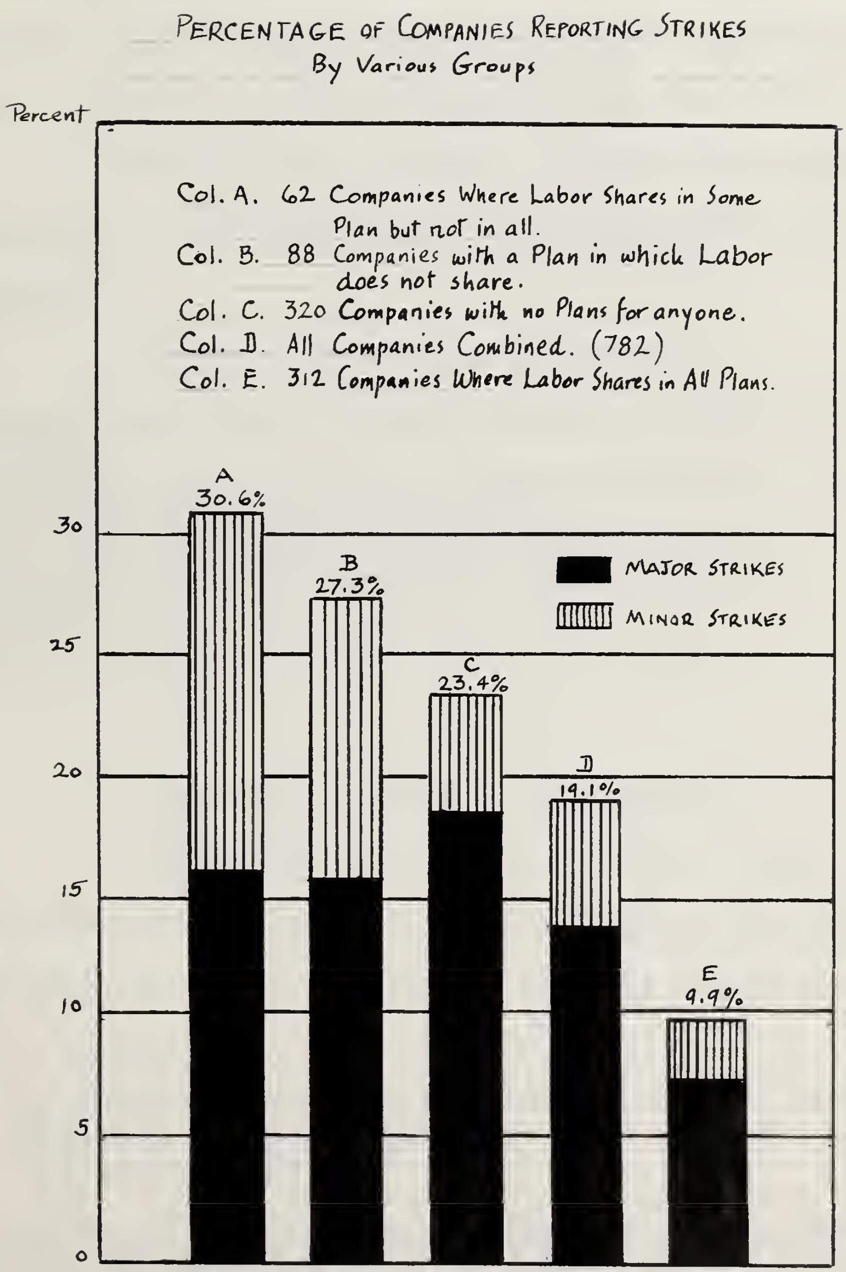
1. National Industrial Conference Board; Profit Sharing plans for Executives. New York, N.Y. 1938. p. 10.

While the mortality of plans for executives may be lower than for those covering wage earners, the findings of results of profit sharing plans in operation as shown by the report of the Senate Committee investigating Profit Sharing and Incentive Taxation indicate that where profit sharing plans are in operation, those that embody complete coverage of all the workers in a plant are most desirable. While some eligibility requirements must be set up if lower labor turnover and stability of employment are to be attained, any plan should aim at making eligible the entire basic working force. In industries where seasonality of sales volume makes necessary a part-time working force this may not easily be feasible and make necessary an alternate plan of sharing profits with this class of employees. For the basic force, however, a generally applicable plan seems most desirable.

It is questionable also what distinction, if any, should be made between managerial employees, executives, and the rank and file. While it may on the surface appear indefensible, there should be no distinction in the actual profit plan. A basic plan should apply uniformly to all. Executives and managers could find additional source of profit through stock ownership opportunities.

To make any distinction, while in a sense, justified because of the relatively greater responsibility of management for profits and its closer connection thereto, would tend to create a consciousness of separation into classes. This is one of the situations which is hoped to be eliminated by profit sharing.

The greater effectiveness of complete coverage plans in reducing the danger of strikes is shown by the chart below.



SOURCE: Profit Sharing and Incentive Taxation, U.S. Senate Committee on Finance, p.145

One of the conclusions reached by the statistician of the committee investigating Profit Sharing for the U.S. Senate Committee on Finance was that "out of a group of 774 companies with and without profit-sharing plans, the companies that had some plan, in which labor shared, achieved superior results in the matter of strikes over companies without plans and <u>over companies that had plans for executives or plans in which labor did not share</u>."[1*]

Fifty profit sharing plans studied by the National Industrial Conference Board indicated participation as follows:[2]

Classes of Employees Included	Number of Companies
Managerial and wage-earning employees share alike	25
Managerial group receives higher percentage of profits than rank and file	11
Profit sharing applies only to rank and file	6
Different plans for managerial group and rank and file	6
Salaried employees only eligible	2
Total	50

<u>How Shall Shares be Determined</u>

One of the most significant problems to be settled in establishing a profit sharing plan is how to establish an equitable division of profits between employees and owners.

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1. U.S. Senate Committee on Finance; Profit Sharing and Incentive Taxation, Washington, D.C. 1939. p. 159.
* Underscoring mine.

2. National Industrial Conference Board, Profit Sharing and Other Supplementary Compensation Plans Covering Wage Earners. (1937). p. 9.

Many diverse factors, such as the basic purpose of the plan, the financial status of the company and its earning capacity, the attitude of the management and the like, have a distinct bearing on the solution. Not only must it be determined what portion of profits shall be allotted as labor's share but also how the profits are to be divided among the individual workers.

Regardless of the actual method employed the facts to be borne in mind are that shares should bear a definite relation to profits and that the sharing should be on a fair basis.

As is shown in a survey of profit sharing plans made by the National Industrial Conference Board, methods of determining labor's share of the profits fall largely into three classes, one, where the employees' share is taken directly from the net earnings before any deduction is made on capital investment; two, where employees share in some agreed ratio after a deduction for dividends to stockholders has been made; and, three, where employees' share is dependent on the amount of dividends paid on the stock.[1]

Of the fifty plans analyzed by the National Industrial Conference Board[2] fourteen fell into the first group. Employees shares ranged from 5% to 33 1/3% of the

1. National Industrial Conference Board, Profit Sharing and Other Supplementary Compensation Plans, Covering Wage Earners. (1937). p. 7.

2. Ibid., p. 7.

net profits. In the second group were 19 plans. Dividends deducted from profits before allocating labors share ranged from 5% to 10%. Different measures are shown to be in use for determining the worker's share in the remaining balance. Most frequently the percentage is 50%. Nine companies, comprising the third classification, tie the workers' share directly to the dividend declared on the company's stock. For instance, in one company the employees receive the same percentage of their annual earnings in profits as the stockholders receive in dividends.

The most frequent method of distribution of shares among employees is in exact ratio with their earnings. Sometimes, as the table below indicates, other factors are introduced.

Basis for Distribution of Profits to Individual Employees[1]

	Companies Represented Number	Per Cent
Ratio of each worker's wages to total payroll	22	44.0
Earnings and rank	6	12.0
Earnings and length of service	5	10.0
Earnings, length of service, rank	5	10.0
Length of service only	2	4.0
Employee's share depends on thrift	2	4.0
Miscellaneous combinations	8	16.0
Total	50	100.0

1. National Industrial Conference Board, Profit Sharing and Other Supplementary Compensation Plans Covering Wage Earners. (1937). p. 8.

If the broad purpose of profit sharing as a means of making income distribution more adequate to the masses of workers is to be attained, equality of shares, at least on a percentage basis, should be sought. In only one company studied in the survey, the Endicott Johnson Company, "do the employees share alike in the profit fund, regardless of position, wages, and service."[1]

Many of them introduce factors of rank into the Sharing method along this basic line, "an amount is set aside in the employees' fund which is distributed as follows: 20% to the officers of the company, 30% to key men, and 50% to the factory employees."[2] The weakness of such provisions is that the rank and file is not likely to consider them fair. While obviously designed to reward in accordance with responsibility of the shares for company profits it distributes too little in actual cash among the relatively larger number of rank and file workers. An earnings ratio would seem more desirable because it would be fairer and still allow a greater dollars and cents share to executives and other responsible men because of their relatively higher salaries.

An opinion expressed by a mechanic is interesting in this connection. He says,

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1. National Industrial Conference Board, Profit Sharing and Other Supplementary Compensation Plans Covering Wage Earners. (1937). p. 9.

2. Ibid., p. 9.

> "I believe in profit sharing, but I believe that all employees should be paid the same percentage of the profits. In our company there are three classes, namely A, B, and C. A class includes office executives, B class includes shop foremen and C class includes shop employees. When the profits are shared the A class receives 75% of their salary, the B class receives 50% and the C class receives 25%. In my opinion all classes should receive the same percentage."[1]

There is a great deal to be said for equality of distribution of shares, especially where it may be difficult to trace the actual responsibility for savings and increased profits. From a broad viewpoint also is it essential that the larger total share of profits should go to the rank and file because of the greater tendency there to spend the income for consumer goods.

Loss Sharing

In considering the workability of a profit sharing plan the question naturally arises, What about losses? Should employees who are to share in the profits also be asked to share losses, if such are experienced. Several arguments may be advanced in favor of loss sharing provisions. The most important advantage claimed is that interest in the business and responsibility will be heightened if the employee knows he has a stake in the success of the business. It may further be argued that paying the employee

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1. U.S. Senate Committee on Finance. Survey of Profit Sharing and Incentive Taxation. Washington. 1939. p. 106.

a share in profits without asking him to also share losses is unfair, not only to the owners of the business but to the sharer himself.

On the other hand it is objected by some that, "if profit sharing is to be regarded as a payment or reward for added individual or group effort or interest with the view to increase the profits or efficiency of the business, there is no justification for deduction from wages in the case of loss. .... If, after extra effort given and through no fault of the employee, the business incurs a loss, it is hardship enough that the employee must forego his anticipated share of the profits."[1]

It is also quite likely that over a period of years the employee may experience loss through curtailment of working time or lay-off. The seriousness of such contingencies to the worker as more fully discussed in a previous chapter, appears to be risk enough for the employee without jeopardizing his normal wage. Among the 50 plans studied by the National Industrial Conference Board only one,[2] that of the Westinghouse Electric and Manufacturing Company, required that employees share losses. This plan stipulates that salaried employees earning $118.75 or more per month shall be subject to 1% reduction in their base rates for every unit of $60,000 by which the corporation's monthly net in-

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1. Burritt, Dennison, Gay & Others, Profit Sharing, Its Principles and Practice. (1918). p. 29.

2. National Industrial Conference Board, Profit Sharing and Other Supplementary Compensation Plans Covering Wage Earners. (1937). p. 9.

come is below $600,000. This provision does not apply to wage earners and salaried employees in the lower brackets.

When and How Shall Distribution Be Made?

There is a great variety of methods in use in this respect. Distribution of profits is made largely in either cash or some type of stock of the company, or a combination of the two. The time and frequency of distribution varies widely, from monthly to annual payments, and accumulating devices such as pension, savings, and retirement funds. Of the 50 plans spoken of before in this section the following table indicates the frequency of profit distribution.[1]

Frequency of Distribution of Profits

	Number of Plans
Annually	21
Semi-Annually	6
Quarterly	6
Monthly	6
Depends on Stock Dividends	4
More frequently for wage earners than supervisory group	4
Not specified	3
Total	50

The principal reasons advanced for greater frequency of profit distribution are that the worker wants to have his share for consumption use and, that he would rather "have it

1. National Industrial Conference Board, Profit Sharing and Other Supplementary Compensation Plans Covering Wage Earners. (1937). p. 11.

now." Those economists that advocate the impounding of profit shares in trust funds for retirement of the worker do so on the ground that much accumulation prevents the share of profits from being confused with wages, that it creates security for old age, and that it protects the worker against his own inability to save and invest.

While the latter arguments are weighty and quite logical it is questionable whether profit shares should summarily be so disposed of, without allowing the employee any voice in the matter. There exists the danger that the employee will resent the ordering of his affairs by the company. Other means should perhaps be looked to in order to convince the sharer of saving or prudently disposing of his share to best advantage.

While the paying of profit shares in the form of stock has several advantages, cash payment is often more desirable. It is often held that stock ownership increases sharer's sense of responsibility by making him a part owner. Thus he tends to become more loyal, ambitious, concerned about its success. Labor turnover would be reduced because the stockholder becomes more attached to the plant and unrest is eliminated because an owner views things differently than a hired man. This may be true in the small company but the weight of this effect in the large concern where there are thousands of stockholders is rather questionable. It is quite easy to see that stock ownership tends to increase employee saving and thrift, particularly where stipulations

are made by the company as to the disposal of the stock. The chief weakness of stock plans lies in the fact that, unless the purchase value of the stock at the time of distribution is guaranteed by the company (and this might become a very costly guarantee in case of a market break or decline in prices) the worker does not gain what he expected and feels is due him.

Cash payment generally is more desirable because it permits the worker freedom of what to do with his share. Often it may be highly desirable to make a needed purchase to increase his standard of living or promote greater satisfaction for himself or his family. Also, it is a more direct method, which, as a result, promises to be a more effective stimulus for efficiency.

When Should a Profit Sharing Plan be Inaugurated?

To definitely answer this question is rather difficult and rests upon the complete understanding by all concerned of the profit sharing plan and the purpose of the plan in any given situation. From a practical, immediate viewpoint it may be difficult to see the advantages of commencing a plan in times when no profits are made. It is frequently stated that the success of the plan depends on the profits which are distributed, and that, since often corporations make little if any profits it is futile to try a profit sharing plan at times other than when profits are

good. To adopt such a stand seems to be entirely too short sighted and indicative of unfamiliarity with the potential values of profit sharing. Perhaps it may evidence a lack of faith in the employee and his ability to understand--or willingness to understand--the company's problems.

Mindful of the present lack of profits, is it not conceivable that with a profit sharing plan to stimulate all the members of a business unit instead of only the management or the body of the stockholders that a period of low income and negligible profits might be turned into one of good profits? While this depends on many intangibles, and while there is no assurance of this attainment, the idea warrants more widespread interest and continued application than has been given it in the past.

Too, it seems definitely advisable that a profit sharing plan be started at a time when the labor situation is untroubled. Inauguration of a plan as an outgrowth of strikes or other dissatisfaction smacks too much of the idea--which it may well create in the minds of the dissatisfied element also--that the profit sharing plan is a palliative, a sweetening used to calm the troubled situation. Under such conditions the probabilities of failure are unduly increased.

Finally, it would seem that the depression phase of the business cycle should be a very desirable time for the inception of a plan. Conditions then are suitable be-

cause everyone concerned in industry is conscious of the results which dwindling earnings and profits have wrought. We can see and feel the importance of these factors more vividly and at such a time a well conceived plan can successfully be sold to labor.

A Profit Sharing Plan

The great diversity in types of business enterprises and their widely divergent individual problems make the development of any standard profit sharing plan uniformly applicable to all industry impossible. Hence, there is no attempt made in this thesis to formulate such a plan. The purpose, rather, is to outline the basic elements in the structure of a workable, equitable arrangement which might serve as the beginning of a specific plan and make possible its construction on a sound basis.

Emphasis has been placed previously on the importance of making the profit sharing plan a real, easily understood device that results in the sharing of profits as the workers knows and sees them. Obviously, the many different types of plans which provide more benefits to the worker, annual wage plans, pension, bonus, and stock ownership plans are in essence indicative that the management is sharing its income, which in the absence of these plans, would constitute additional profits. However, such plans fall short of maximum satisfaction because the worker does not readily see them as shares of profits but rather as devices of

management to appease him in his quest for a greater share of industrial income. They do little to eradicate the stigma placed on profits by the rank and file who feel that profits are a sign that they have been exploited. The survey conducted by the Senate Committee investigating profit sharing in American industry compiled hundreds of different plans in actual use. Out of this study and the consideration of these plans grew the recommendation of the committee as to a "Profit-Sharing-Savings-Retirement-Fund". The essential features of this recommended plan appear below under the following provisions.[1]

> "1. Joint contributory. Contributions by employees in an amount ranging from a minimum to a maximum percentage of their wages or salary, supplemented by a predetermined share of net earnings to be contributed by the company.
>
> 2. Membership and participation. A preliminary apprenticeship service of two or three years, to be required for membership and participation. It is advised that membership be compulsory after such period of apprentice service.
>
> 3. Apprenticeship bonus. A bonus based on a dividend of the employees annual wage and in the form of non-negotiable preferred stock of the company is suggested for payment during the period of apprenticeship.
>
> 4. Administration of fund. This shall be by a board of five or more members, 2 elected by employees, 2 by the company, the fifth being the executive officer of the company who shall act as trustee.

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1. U.S. Senate Committee on Finance; Survey of Profit Sharing and Incentive Taxation; Washington, 1939. p. 130.

5. Investment of Fund. Employees' portion invested subject to regulations of the state law regarding investment of trust funds. Company portion may be invested at trustee's discretion and that of the advisory board, guided by the regulation as to soundness of the investment.

6. Retirement Age. Age of retirement optional at 60 or 65 years, total disability being construed as retirement.

7. Dismissal or voluntary withdrawal credit. Employees withdrawing voluntarily or being dismissed should be paid all they have contributed plus accumulated interest, and a percentage of the company's contribution. The remainder is to revert to the fund for the remaining members.

8. Dismissal of Employees. Protection should be given to employees against arbitrary and unjust dismissal.

9. Integrity of Fund. Should be maintained independently of the solvency or permanence of the corporation."

This plan has many advantages without doubt. In the words of its framers, "in effect, this plan encompasses (1) a pension system, (2) a savings plan, (3) a retirement fund, (4) incentive wage plan, (5) a bonus system, (6) an annuity plan, and, indirectly, (7) a merit system."[1]

Especially emphasized is the advantage that "it supplies the factor missing in practically all other plans--that cohesive element that impels the employee to stick--a cementing of loyalty (possible selfish, but actual nevertheless) to his institution--a determination to get the 'reward

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1. U.S. Senate Commission, Profit Sharing and Incentive Taxation, Washington, D.C. 1939, p. 130.

at the end of the race' and that determination is matched with an antagonism against any person or organization that attempts to disturb the serenity of the future prospect."

The chief criticisms of this plan are that it does not measure up to the requirements of a real profit-sharing plan in that, first, it is a "joint-contributory" plan where the employee, in order to share in the profits, must dip into his pay envelope every week, whether he and his family can afford it or not, to make the determined contribution. While this enforced saving may be both theoretically and in many practical ways desirable, it is questionable whether such saving should come as result of a management devised regulation. Second, it rather completely ties the hands of the worker as to the disposition of his share of the profits. It makes no allowance for the fact that, in addition to a future, the worker also faces the present with its constant pressure for satisfaction of increasing wants. It does nothing to bring about greater stabilization of industrial employment by making it possible for the masses to buy more and consequently for industry to produce more. It appears to be a glorified pension plan, fine if designed for that purpose but unsuited to the problems set for profit sharing in this thesis.

Like many other devices in industrial relations programs it leans in its operation to paternalism. Funda-

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1. U.S. Senate Commission, Profit Sharing and Incentive Taxation, Washington, D.C. 1939, p. 130.

mentally most individuals resent any inference that they are not capable of handling their own affairs, true though that fact may be. The enjoyment of sharing the profits is too tied up in management devised regulations which the employee must accept in order to be eligible. It is much more desirable to impress the employee of the advisability of setting aside his profit shares for the future through some other means than to arbitrarily specify that he must accept the plan as devised.

In offering the following plan for consideration the attempt has been made to attain a fair distribution of profits, to preserve absolute simplicity and freedom of use of profits once the worker's share has been allocated.

1. Contribution.

After the Board of Directors, or whatever body has the right to do so, has determined the net profits available for distribution, a reasonable return on capital stock should be deducted first. The suggested percentage of 6% appears fair. The balance should be shared between employees and stockholders in proportion of capital invested to total payroll.

2. Membership and Participation.

The plan should endeavor to make eligible as large as possible a group of the company's employees, both the rank and file and the salaried or executive group. It is suggested that a year's steady and satisfactory employment should be required before the admission of any employee to the

plan is granted. This probationary period is necessary if the basic purposes of the plan are to be accomplished.

3. Distribution of Profits.

Profits should be distributed out of the total fund to be shown in the ratio which individual's annual wages bear to total employee payroll.

4. Administration of the Plan.

The plan should be managed by a joint employer-employee group; of at least 5 members. Two members should be selected by the employees, the others by the management.

5. Time of Payments.

A plan should be developed, to give the employee the option of choosing either:

(1) Cash Payment Annually

(2) Savings-Retirement Plan managed by company.

6. Dismissal Credit.

Where employee is discharged from service in good faith a proportionate share of profits should be allocated to him and paid at time of next distribution.

Dismissal through causes of negligence, or inefficiency automatically revokes participation.

7. Voluntary Withdrawal.

Where employee voluntarily leaves employment participation is revoked by such withdrawal.

This plan I believe meets the basic requirements set for a profit sharing plan. It is on a true profit-sharing basis and does not encroach on the worker's rights of freedom as to use of funds shared. It must be borne in mind however that there has been no attempt made to formulate a universally satisfactory arrangement. Many diverse factors may be operative in any specific case that warrant changes and adjustments. This plan represents a fundamental structure.

The matter of contribution by the company is, I believe on an equitable basis. I have particularly emphasized the fact that allocation of labor's share should come after the net profits available for distribution have been determined. A sound, fair accounting system is absolutely imperative, since much of labor's antagonism toward profit sharing is based on the fact that unscrupulous employers have often used involved, complicated accounting methods to conceal profits in order to deprive labor of its share. This is particularly important in a plan like that suggested in this writing where capital gets a prior share of the profits. Although presumably efficient accounting methods will make certain that sufficient reserves are built up for contingencies, it is highly desirable, within the limits that taxation rates permit, to build up surplus accounts in good years in anticipation of the lean ones--which appear to be certain to follow. It is advisable that standard accounting procedures be used. For instance, in the matter of depreciation charges, the Bureau of Internal Revenue has set rates which may be used as guides varying according to specific conditions. The atti-

tude of the bureau on this matter is that a "reasonable rate depends not only on the prospective useful life of the property but also on the particular conditions under which the property is used as reflected in the taxpayer's operating policy and the accounting policy with respect to repairs, maintenance, replacements, charges to the capital account and to depreciation reserve."[1]

The following are examples of rates suggested:

Asset	Probable Useful Life	Depreciation Rate
Turbines		
Hydraulic	40 yrs.	$2\frac{1}{2}\%$
Steam	22 "	$4\frac{1}{2}\%$
Engines--Gas and Gasoline	17 "	6%
Boilers and Furnaces	20 "	5%
Automobiles	4 "	25%

No substitute exists for honest, frank management which sincerely will try to create better understanding among the workers. The employee representatives of the board which administers the profit sharing plan should be given an opportunity to understand the working of the accounting system and to discuss with management controversial issues. They furthermore should have a voice in the determination of the certified public accountant who is to audit the books. If integrity and sincerity motivates all concerned these safeguards will unquestionably be enough to build mutual trust, understanding, and confidence.

The 6% paid to capital stock--to be based on the book value of the stock,--is justified on the ground that it is an equitable return comparable to the wages paid to labor. Sharing in the balance according to the ratio which invested capital bears to total payroll will reward each

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1. Federal Tax Service, Prentice-Hall, 1941. Vol. I, p. 14102.

factor fairly if one bears in mind the absolute need of the business for each of these factors.

Eligibility requirements have been set at one year's satisfactory service. This provision tends to work toward the achievement of one of the purposes of the plan--that of reducing labor turn-over. Provided that the Personnel division does a good job in hiring, training and placing workers, this one year provision builds a technically satisfactory group which may be expected to become more efficient, loyal and cooperative through the incentive provided by the plan.

No distinction in rank has been made. It is felt that the salary and wage differentials between the various employees is sufficient to indicate the varying responsibilities. Furthermore, since sharing in the profit fund is to be on the basis of the ratio of the individual worker's salary to the total payroll the proper differential is also introduced.

In the administration of the plan by the joint employer-employee committee particular attention must be given to the selling of the plan to the workers. Introducing and maintaining a profit sharing plan successfully involves a continuous campaign of education while the plan is operating. Workers must be taught to find some definite connection between their efforts and company profits and confidence in the management must be built up. The joint

committee should contrive all possible means to bring about this greater understanding. Pamphlets, bulletins, lectures, discussion meetings and the like are some of the media available for this purpose.

The following excerpt from an annual report of the Goodyear Tire and Rubber Company[1] to its stockholders and employees is an illustration of what is being done to acquaint workers with management problems.

ANNUAL REPORT TO EMPLOYEES
by P. W. Litchfield, President

The position occupied by management in the modern, large-scale enterprise is coming to be properly recognized as a joint trusteeship of the interests of both the stockholders and the employees.

In accordance with this view I have for the past two years submitted, along with the required formal report to stockholders, a non-technical statement to employees covering the operations of the preceding year.

It appears advisable to continue this practice and I am, therefore, submitting the following simplified figures concerning our business for 1939:

WE RECEIVED

1. From customers who bought our tires tubes and other goods we make and sell (including excise taxes and transportation charges which are deducted from sales in the formal statement).. $215,366,433

2. From other sources such as for interest and rents... $1,130,409

Which gave us a total income for the year of 1939 of..... $216,496,842

WE PAID OUT

1. To the year's average of 45,686 employees in wages and salaries..$57,269,980

2. For rubber, cotton, chemicals, fuel, supplies, other raw materials and for other items including transportation and advertising expense.... $116,070,452

3. As a reserve against the wearing out of plants and machinery.... $9,031,416

1. Goodyear Tire & Rubber Co., 41st Annual Report to Stockholders 1939. p. 15.

4. As taxes to cities, states and federal government... $13,600,759

5. As taxes and duties outside the United States......... $8,334,727

6. In interest on borrowed money used in the business and as dividends on stock not owned by Goodyear in our foreign subsidiaries..$2,350,711

This left profits from the year's operations amounting to $9,838,797.

Out of these profits we paid dividends of $5 on each of the 649,632 shares of outstanding preferred stock and $1 on each of the 2,059,168 shares of outstanding common stock.*

Our total income of $216,496,842 for 1939 compared with $179,220,816 for 1938. Domestic taxes paid by the company were more than four million dollars higher in 1939 than in 1938, averaging $472 per employee on our United States payrolls, or $6.61 per share of common stock outstanding.

*If the company had a profit sharing plan in force there would be an explanation of the amount of profits shared and distributed to the employees.

Reports such as these, in addition to efforts designed to develop in the worker a greater understanding of the economics of business and industry can serve both to create a greater interest the welfare of the company and to develop a more understanding and compatible business partner.

In suggesting the optional method of making the share of profits available to the employee it has been kept in mind that it is desirable to encourage the employee to save something for his own future. Incidentally, one of the phases of the education program might well include the fundamentals of home budgets and personal finance. By operating a savings-retirement plan this opportunity can be given the employee. On the other hand, the worker who needs his share at the moment has access to it by electing to receive cash.

How the sharing provisions of this plan would function is pointed out in the following example. Figures have been adapted from financial statements of a company filing information with the Securities Exchange Commission for the year 1935. The X Enamel Corporation had in this year a net profit of $239,929.64. Out of this amount the directors declared dividends of $90,400 to a capitalization of 24,000 shares of 5% preferred stock ($132,000) and 122,000 shares of common stock, no par value. The Preferred Stock received $6,600 and the common stock the balance, $83,800. Computed on the book value of the common stock of $6.00 per share, these holders received a return of approximately 11.4%.

The profit sharing plan would have made the following changes in distribution.

Assume the same amount to be paid out of net profits, $90,400.

Preferred stockholders receive	$ 6,600
Common stockholders receive 6% on $732,000	43,920
Total prior payments	$50,520
Balance to be shared by stockholders and employees	39,880

Method of determination.

Common stockholders investment	$732,000	59.0
Total payroll (representing investment of labor)	510,000	41.0
Total investment	$1,242,000 =	100%

Thus:

Labor's share, 41% of $39,880 = $16,350.80

Divided then among the workers on the ratio of their wages to total payroll it would give a man making in wages $1,800 a year a profit share of $57.23, or a 3.18% on the basis of his wages.

The common stockholders would have received an additional $23,529.20, an additional 3.2%.

While it is true that in this instance the share in dollars and cents is not very large, this case indicates the basic fairness of the distribution. If the plan achieves its desired purposes and is instrumental in creat-

ing greater profits labor's share naturally increases. Thus there is present the incentive for greater efforts. (In the case of this actual company it is noted that, other things being equal, a greater share was possible since only $90,400 out of net profits of $239,929.64 were distributed.)

Two Plans in Operation

It has been pointed out in a previous part of this thesis that there are today more than 728 companies which have some form of profit sharing plan in operation. This, of course, includes many plans which under a strict interpretation of profit sharing,--the sense in which was regarded in this thesis--would not qualify.

I refer to plans which require employee contribution, operate as pension, savings and retirement plans and the like. However, the very presence of these diverse arrangements indicates that business men are attacking the problem of labor relations vigorously and that they are not averse to sharing profits, regardless of the method used.

The Senate survey on Profit Sharing and Incentive Taxation segregated all these plans into two great classes "Partnership Plans" and "Non Partnership Plans."[1] "Partnership Plans" are those involving profit percentage, wage dividend, and/or stock ownership where the employee, it is expected, will be more interested in efficiency, economy, and profits because he will share in them in the manner of an owner or "partner." "Non-Partnership" Plans, on the other hand are pension, annuity, or bonus schemes where labor's share has no direct relationship to profit, and

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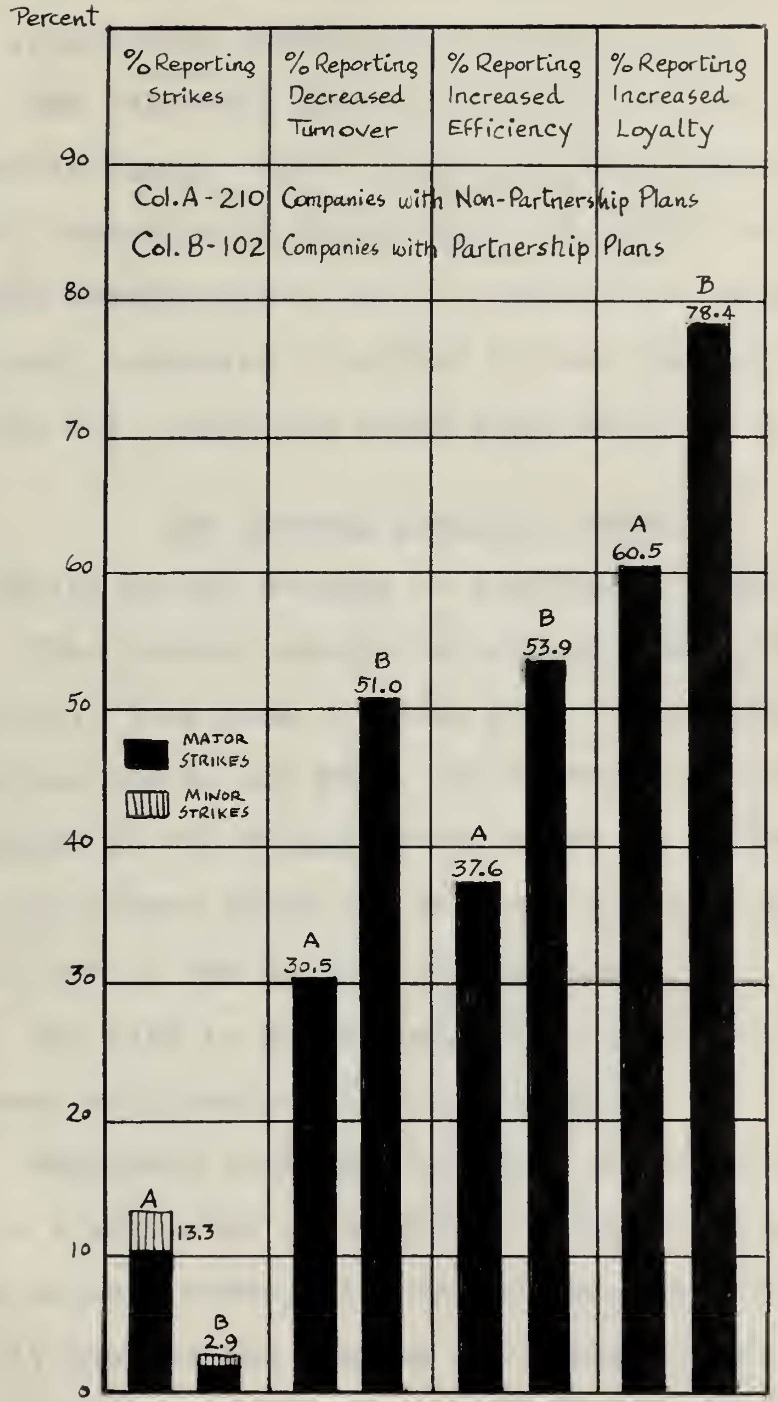
1. U.S. Senate Committee on Finance, Survey of Profit Sharing and Incentive Taxation, Washington, D.C. (1939) p. 150.

Industrial Relations Record of 312 Companies



SOURCE: Survey of Profit Sharing Experiences, U.S. Senate Committee on Finance, p. 152

where, as a result, the effectiveness of the plan may be more remote. The greater effectiveness of partnership plans is graphically shown on the chart on page

The following plans are typical of many built along similar lines. These companies which report the successful operation of their plans are exhibits proving that profit sharing plans can be operated in large as well as small companies if effort is made to develop a plan to fit the conditions under which business is done.

The General Electric Company[1]

Employing 65,000 workers -- Electrical Manufacturing

This company adopted a General Profit Sharing plan in 1934. This plan provides that the directors may apportion and pay in any year, out of earnings available for dividends on the common stock, after 8% of the book value of the common stock has been set aside, a maximum amount of 12½% of the balance of earnings.

The plan is administered by a committee appointed by the board of directors from its members.

Employees today are eligible after 1 year of service on a graduated scale based on length of service. Employees in each works, district office, general office and sub-division of the company are covered by the plan.

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1. Monthly Labor Review, Profit Sharing Plan of the General Electric Company, May, 1938.

The total amount of earnings of each of these groups is determined and a proportion of the general fund is set aside for each group in ratio of the earnings of the group to the total payroll. About 80% of each group's share is pro-rated; the other 20% is disposed of on recommendation of the manager of each group to those who have done outstanding work.

Payments may be made in full in cash, or if the employee wants, his share may be placed in the form of 5% bonds with the General Electric Employees Securities Corporation.

The company's report for 1937 shows that distribution under the plan in that year was $5,761,140 compared to $2,937,934 in 1936.

At the Senate Hearings on Profit Sharing in 1938, Mr. Girard Swope, President of the Company, stated that in 22 years (G.E. had other profit sharing plans before the present general plan was adopted in 1934) the company has distributed almost $100,000,000 of profits to its employees. Questioned concerning the effect of this plan on the labor relations of the company Mr. Swope stated that since 1918, while the company has experienced some unrest it has had no strikes.[1]

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1. Hearings before Senate Committee Investigating Profit Sharing and Incentive Taxation. Washington, D.C. (1938) p. 136.

Haskins Manufacturing Company[1]

This concern is representative of the smaller company. It manufactures special alloys, castings, electric furnaces, and pyrometers. It employs about 200 people.

The profit sharing plan was instituted in 1923. After a 6% deduction on capital stock, 25% of the remaining profits is set aside to be distributed among all the company's employees. The shares are paid in cash in February of each year. With only one exception there has been a profit payment each year since the institution of the plan.

Some of the effects of the plan are stated by company officials to be that labor turnover today is less than 8% as compared with over 90% per year prior to the installation of the plan. Scrap is now 29½ percent of prior years even though the required quality is higher than before."[2] There is reputed to exist an extraordinary spirit among the workers that makes for profits. They are made to feel that they earn their share, and consequently are imbued with interest, efficiency and loyalty.

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1. Gordy, C.B., in Factory Management, December, 1937. "Everyone in this Plant Gets a Share of the Profits."

2. U.S. Senate Committee on Finance; Survey of Experiences with Profit Sharing and Incentive Taxation, Washington, 1939. p. 165.

That the employees are quite contented and happy with the company is shown by the following statement, "Employees have individually shown appreciation on several occasions. Last February (1938) sit-down strikes were still common in Detroit when we paid extra compensation for the year 1937. Our factory employees wanted to be original so they purchased a sterling silver cup and one noon hour they marched up to our general office to see Mr. Marsh, our president. Then one of our oldest employees made a very appropriate presentation speech in which he thanked the president for the extra compensation."[1]

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1. U.S. Senate Committee on Finance; Survey of Experiences with Profit Sharing and Incentive Taxation, Washington, 1939. p. 165.

Selling the Plan to Labor Unions

The attitude of organized labor toward profit sharing has been discussed in a previous section. Much of the earlier antagonism was justified by misuse of profit sharing by short-sighted employers. Today structure and operation of profit sharing plans has been greatly improved, and management is becoming more aware of its responsibility to its employees. As a result the attitude of labor leaders has undergone considerable change and there seems to be no reason why unions and profit sharing cannot exist side by side. The Senate survey of profit sharing experiences pointed out that "reports from companies which have profit sharing plans in operation are almost unanimous that managements have maintained a strictly neutral attitude regarding union membership, allowing "their own free will as to affiliating with any union they choose. The same attitude is found to be true toward collective bargaining."[1]

The key to greater acceptance by organized labor of profit sharing lies in the creation of mutual understanding and confidence between management and labor, and the recognition that both are working for a common goal. With this in mind, controversies should be frankly and fairly dealt with. Provided that the union leadership is sincere in purpose there is no reason why management should not make

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1. U.S. Senate Committee on Finance. Survey of Profit Sharing and Incentive Taxation. Washington, D.C. 1939. p. 91.

available information concerning the costs, income and profits of the business and be willing to give unions some interest and participation in the management of the plan. Where employees in a plant are organized a simple expedient would be to choose the employee representative on the administrative board from the union group, perhaps the executive members. There is no reason why unions would have to forfeit any of their rights. Labor would still bargain collectively through the union for the establishment of a satisfactory basic wage level, and standard working conditions and the like. Thus the only real modification of labor union policy that would result from the introduction of profit sharing would be to make their demands for wage increases more reasonable, based more on the ability of business to pay them without introducing elements that would make continued profitable operation questionable.

By retaining the needed element of flexibility in the wage structure stable business could be build reducing the danger of unemployment and thus contributing much to the security of the worker. This, in the final analysis, seems to me to be his major problem. Perhaps as has been previously noted, through eliminating much of the cause of labor trouble, that of dissatisfaction with wages, unions might turn to different, more socially desirable activities.

CONCLUSION

The business system of the United States is sick. In fact it appears to have been ailing for some time. As an economic and industrial unit we find our condition much like that of a man, who has had a robust carefree youth, and suddenly is beset by a variety of perplexing ills. In his haste and anxiety he tries many different medicines and palliatives without getting much lasting relief. Just as surely as we know that such relief will not come to him until his basic source of trouble has been located and adequately treated, so do we know that our economic conditions will not turn much for the better until some basic troubles are recognized and treated efficiently.

Diagnosis is constantly going on to locate these sources of trouble. Several major ailments appear to have been located in the form of inadequate income distribution and various industrial maladjustments such as strikes, unemployment and other forms of industrial instability.

Cure for these troubles is by no means universally agreed on.

In some nations freedom of enterprise has been replaced by the regimentation of Fascism and Naziism, largely because of the failure to devise a satisfactory remedy for economic ills. Our deep attachment to the principles of liberty and freedom acts as a stimulus to find some method of correcting the situation that is

within the limits of the framework of economic democracy.

In the search for a corrective measure Profit Sharing has been grasped because it promises to hold a key toward satisfactory solution.

Profit sharing is one type of medicine that at least will not kill the patient. It is well adapted to the constitution of the ailing subject. In fact, it possesses much of the qualities of a serum prepared from the very poisons that are responsible for the illness, and injected in the patient to bring about his recovery.

Since the mainspring of American business is profits, Profit Sharing, because it revolves around profits,--the most potent and most productive motivating factor man has yet known--,contains many potential values in achieving the desired goals of the economy.

The broad objectives of Profit Sharing are to aid in bringing about a more adequate distribution of industrial income, in creating more stable employment, in eliminating industrial unrest, and in building a more homogeneous economic society. It must be remembered that Profit Sharing in itself is no cure-all for all the economic ills. Rather, it should be an essential part of a well developed employer-employee relations program throughout industry.

Since the national welfare and prosperity of American industry is created by the multitude of individual business units.

Business attainment of these broad objectives must come through the creating of better working conditions, better income, greater security, by the individual companies who employ labor. In this there is a two-fold responsibility, first, of capital, or ownership, to recognize the need for labor, to appreciate the problems of this factor and to willingly and earnestly cooperate in the attempt to find a solution; second, of labor, to recognize the rights and problems of capital, endeavor to understand its trials and tribulations, and to assume its place as a real partner.

This survey has shown that profit-sharing can and does aid in the developing of more profitable, sound business. It is effective in creating greater employee interest, care and efficiency. It tends to reduce those costs of business which are due to wasteful, inefficient, careless handling. It reduces costly labor turnover by developing a more satisfied and contented labor force. It reduces the danger of the company's being involved in a strike because it removes one of the three greatest causes of strikes, that of dissatisfaction with wages.

Because it tends to give flexibility to the wage system it reduces the danger of the company's being burdened by too high, rigid wage levels which often destroy work for employees. Because the resultant high operating costs often prevent the profitable sale of the company's products at the necessarily increased prices the only alternative

frequently is to stop production. To the worker this means unemployment.

It is entirely logical to expect that if the operation of the individual business unit is made more efficient stable and profitable that these benefits will spread into industry as a whole.

Whether profit sharing will work in any company depends largely on the type of plan chosen to meet the specific conditions under which that company operates and the understanding with which the employer and employees enter into the agreement. Mutual trust honesty, fairness, confidence, and cooperation are of course essential.

The relatively high mortality of profit sharing plans covering the rank and file employee is often cited as proof of the inadequacy of profit sharing as an industrial aid. This is however a grave mistake. Profit Sharing, though not a new philosophy, is developing, just like many other things have developed, through trial and error. In a problem of such magnitude as industrial relations, complicated by many intangible factors--psychology, human nature, and the like--it is impossible to produce immediately a fool-proof plan. That the movement is growing is evidence that it has basic values which must be developed by continued application.

The 728 companies which filed information con-

cerning plans of this nature cover a wide scope, both in size and type of industry. They show that Profit Sharing can and does help to better industrial relations.

Finally, profit sharing deserves more attention because it fits logically into the picture of a country which is approaching industrial maturity and which must, make more intricate adjustments in its internal mechanism to preserve balance.

By tending to develop more adequate and equitable distribution of income, by eliminating industrial unrest, and by creating a more homogeneous economic society Profit Sharing promises to be a bulwark for the defense of our economic institution of free enterprise.

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